

Chapter 2

Section 2.01

The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money

Follow-Up on *October 2017 Special Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	2	2				
Total	2	2	0	0	0	0
%	100	100	0	0	0	0

Overall Conclusion

As of June 10, 2019, the government had fully implemented both of the actions we recommended in our *2017 Special Report*. Since our audit, the province has recorded the full financial impact on the province's consolidated financial statements of the reduction in Ontarians' electricity rates mandated by the *Ontario Fair Hydro Plan Act, 2017*. This change was required to enable the Office of the Auditor General of Ontario to issue a "clean," or

unqualified, opinion on the consolidated financial statements for the 2017/18 fiscal year—the first such unqualified opinion in three years.

On May 9, 2019, Bill 87, *Fixing the Hydro Mess Act, 2019*, received royal assent. The Act effectively winds down the financing structure established under the Fair Hydro Plan by preventing any further issuance of debt through the original Fair Hydro Plan structure after November 1, 2019. The Act also shifts the responsibility for Fair Hydro Plan debt servicing and repayment from the ratepayer base (though the Independent Electricity System

Operator) to the taxpayer base (through the Consolidated Revenue Fund).

The status of actions taken on each of our recommendations is described in the following sections.

Background

In the summer of 2016, the Ontario government of the day commissioned a series of opinion polls that included questions about hydro rates. The polls overwhelmingly indicated that Ontarians wanted the government to control electricity prices. In response, the government announced on September 12, 2016, that residential and small-business electricity bills would be lowered by 8% as of January 1, 2017. The 8% reduction would appear on hydro bills as a rebate equal to the provincial portion of the Harmonized Sales Tax.

On March 2, 2017, the government announced a policy decision to further reduce electricity rates for all residential and some small-business ratepayers by 25% on average, including the 8% announced in March. This reduction was effective July 1, 2017, for a period of four years. The government also announced an additional reduction for other programs that would now be paid for by taxpayers rather than hydro ratepayers. Electricity rate increases for eligible ratepayers were to be held to the rate of inflation over the four-year period.

On May 11, 2017, the government introduced Bill 132, *The Fair Hydro Act, 2017*, to legislate the details of the Fair Hydro Plan. The Legislature passed the *Ontario Fair Hydro Plan Act, 2017* on June 1, 2017.

In spring 2017, the Financial Accountability Office (FAO) issued a report entitled *Fair Hydro Plan: An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*. The FAO estimated that the Fair Hydro Plan would cost the province \$45 billion over 29 years (\$5.6 billion for the provincial HST rebate and \$39.4 billion for the electricity cost refinancing and changes to electricity relief

programs). It also estimated the Fair Hydro Plan would provide overall savings to eligible electricity ratepayers of \$24 billion, resulting in a net cost to Ontarians of \$21 billion. At the time, the FAO also estimated that Ontarians may pay up to \$4 billion more in interest expense by financing the electricity-rate borrowings through the Fair Hydro Plan structure instead of the usual method of issuing provincial debt through the Ontario Financing Authority.

When the Auditor General became aware of Bill 132, she appeared before the Standing Committee on Justice Policy during its three days of public hearings on the Bill in May 2017. In the following months, we performed additional work to further understand the rationale behind the accounting and financing design of the *Ontario Fair Hydro Plan Act, 2017* and how plans evolved. What we learned made it necessary to issue the Special Report on *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*.

As an independent, non-partisan Office of the Legislative Assembly, the Office of the Auditor General is committed to protecting the public interest. Under the *Auditor General Act*, the Legislature has given the Office of the Auditor General the statutory right and responsibility to speak out when the financial information of the government is not, or will not be, presented fairly and transparently to both the Legislature and Ontarians. In issuing the Special Report, we were fulfilling our responsibility under Section 12(1) of the *Auditor General Act*.

We made one recommendation, consisting of two actions.

Status of Actions Taken on Recommendations

We conducted assurance follow-up work between April 1, 2019, and June 10, 2019, and obtained written representation from the Treasury Board Secretariat effective November 7, 2019, that it had

provided us with a complete update of the status of the recommendations we made in the Special Report on *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*.

Key Issue: Sound Fiscal Transparency, Accountability and Value for Money

Recommendation 1

The Office of the Auditor General recommends that the government:

- record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements;

Status: Fully implemented.

Details

Under the Fair Hydro Plan, the government of the day created a complicated structure in which the difference between the amounts owed to energy generators and the amounts actually collected from electricity users by local distribution companies would be funded by debt raised by a trust established under Ontario Power Generation. This structure was put in place by the government of the day to keep debt off the province's consolidated financial statements.

In July 2018, the newly elected government announced the creation of an Independent Financial Commission of Inquiry (Commission) under the *Public Inquiries Act, 2009*. The mandate of the Commission included a requirement to "perform a retrospective assessment of government accounting practices, including pensions, electricity refinancing and any other matters deemed relevant to inform the finalization of the 2017/18 Consolidated Financial Statements of the Province." The Commission reported to the Minister of Finance and the Attorney General on August 30, 2018.

In September 2018, the government accepted the Commission's recommendations.

As a result, in the province's consolidated financial statements for the year ended March 31, 2018, the government correctly recorded the financial impact of the Fair Hydro Plan on the province's debt and deficit. As such, the Auditor General of Ontario was able to issue a "clean" or unqualified opinion on the consolidated financial statements of the province of Ontario for the 2017/18 fiscal year.

Other actions recommended by the Commission included:

- providing the Auditor General of Ontario with advance notification and the ability to provide comment when a ministry or agency proposes to engage a private-sector firm to provide accounting advice;
- adopting the Auditor General's accounting treatment for any net pension assets of the Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan; and
- undertaking a review of the *Fiscal Transparency and Accountability Act, 2004* to improve its effectiveness in guiding government fiscal planning and reporting.

In order to address the recommendation made by the Commission with respect to engagement of private-sector firms, the Auditor General of Ontario has communicated independence requirements to firms that audit the entities included in the consolidated financial statements of the province. In addition, the Auditor General of Ontario is developing protocol documents with the Office of the Provincial Controller Division (OPCD), the ministries, and agencies to improve the timely flow of accounting information between parties. For example, the protocol documents will establish a process whereby the Office of the Auditor General will receive notification when a ministry or agency is issuing a request for proposal for external accounting advice. In addition, the Auditor General and OPCD would both receive draft financial statements of the entities that report into the consolidated financial statements prior to approval by the entity's own governing body (i.e., board, committee, etc.).

- use a financing structure to fund the rate reduction that is least costly for Ontarians.

Status: Fully implemented.

Details

According to our findings in the Special Report, the FAO estimated that the Fair Hydro Plan would have cost the province up to \$4 billion more in interest costs than if the province had borrowed the funds directly through the Ontario Financing Authority.

On the recommendation of the Commission, the government tabled Bill 87, *Fixing the Hydro Mess Act, 2019* (Act). The Act, which received royal assent on May 9, 2019, winds down the financing structure established under the Fair Hydro Plan by preventing any further issuance of debt through the Fair Hydro Plan structure after November 1, 2019. As a result, debt will be able to be raised at a lower cost by the Ontario Financing Authority.