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on Financial Transparency**

**Comité spécial de
la transparence financière**

1st Session
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Tuesday 20 November 2018

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Mardi 20 novembre 2018

Chair: Prabmeet Singh Sarkaria
Clerk: Valerie Quioc Lim

Président : Prabmeet Singh Sarkaria
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Hansard Reporting and Interpretation Services
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**SELECT COMMITTEE
ON FINANCIAL TRANSPARENCY**

**COMITÉ SPÉCIAL DE
LA TRANSPARENCE FINANCIÈRE**

Tuesday 20 November 2018

Mardi 20 novembre 2018

The committee met at 1501 in room 151.

ONTARIO FINANCING AUTHORITY

The Chair (Mr. Prabmeet Singh Sarkaria): Good afternoon. The Select Committee on Financial Transparency will now come to order.

I would like to welcome the Ontario Financing Authority for being here today. We will give you a brief opportunity to make an introduction: approximately 10 minutes. We will then go into 20-minute rounds for questions, starting with the opposition.

Before we begin, I'm going to quickly read a statement on parliamentary privilege and the rights and duties of witnesses, which we have been doing before every session. I will read that statement now.

Witnesses appearing before committees enjoy the same freedom of speech and protection from arrest and molestation as do members of Parliament. Furthermore, section 13 of the Canadian Charter of Rights and Freedoms provides that: "A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence." Therefore, nothing said by a witness before a committee may be received in evidence against that person in a court of law or similar proceedings, except in a prosecution for perjury where evidence was given under oath. For this reason, a witness may not refuse to answer a question from the committee on the grounds of self-incrimination or that answering might expose the witness to a civil action.

Witnesses must answer all questions the committee puts to them. A witness may object to a question asked by an individual committee member. However, if the committee agrees that the question be put to the witness, he or she is obliged to reply, even if the information is self-incriminatory, is subject to solicitor-client or another privilege, or on other grounds that might justify a refusal to respond in a court of law. A witness may ask for clarification if he or she does not understand a question. Members have been urged to display the appropriate courtesy and fairness when questioning witnesses. A witness who refuses to answer questions may be reported to the assembly.

Witnesses must also produce all records requested by the committee. A witness may object to production.

However, if the committee agrees that the document is to be produced, the witness is obliged to do so. A refusal or failure to produce a document may be reported to the assembly.

A refusal to answer questions or to produce papers before the committee, giving false evidence, or prevaricating or misbehaving in giving evidence may give rise to a charge of contempt of the assembly, whether the witness has been sworn in or not.

Now I'd like to pass it over for a 10-minute introduction, and if you could also please read your name into Hansard as well, we would greatly appreciate that.

Mr. Gadi Mayman: Good afternoon, Mr. Chair and members of the select committee. My name is Gadi Mayman, and I'm the CEO of the Ontario Financing Authority. I'll ask Ron to introduce himself.

Mr. Ronald Kwan: Good afternoon, Mr. Chair and members. I'm Ronald Kwan, assistant deputy minister of the corporate and electricity finance division of the Ontario Financing Authority.

Mr. Gadi Mayman: I'd like to thank the select committee for inviting us to appear. We're pleased to be able to assist the committee as you conduct your very important work. After our short introductory remarks, we look forward to responding to your questions.

Let me begin by providing some brief context on the OFA. Basically, and to oversimplify a little, we are the Ministry of Finance's financing, internal banking and financial advisory entity. The OFA was established as an agency in 1993 by the Capital Investment Plan Act. The Minister of Finance is the minister responsible for the OFA.

Under the act, key aspects of the OFA's mandate include:

- managing the provincial debt and conducting borrowing for the province;
- providing centralized financial services for the province, including banking and cash management;
- advising ministries, crown agencies and other public bodies on financial policies and projects;
- assisting crown agencies and other public bodies to borrow and invest money; and
- lending to and investing on behalf of some public bodies.

With the OFA's mandate in mind, we believe that we can be helpful to the committee as you develop your observations and recommendations with respect to the

Independent Financial Commission of Inquiry's report as, first, we provided advice on fiscal and financial considerations for the rate mitigation options that the Ministry of Energy was bringing forward for the previous government's consideration. Once global adjustment refinancing was selected by cabinet, we then provided advice on and worked to minimize the costs of implementing the program, and any future government's financial exposure, should they choose—as the current government has—to unwind global adjustment refinancing.

Secondly, we also provided advice on the impact on the province's debt of options related to the accounting treatment of jointly sponsored pension plans.

Thirdly, and I think most importantly, the OFA is responsible for managing the province's debt load and borrowing program, subjects that the commission spent a considerable amount of time reviewing and providing recommendations on.

I'll now ask Ronald to provide you with an overview of his division, and insight into the financial advisory role that the OFA has.

Mr. Ronald Kwan: Thanks, Gadi. As for some background on my division, the professional staff in the corporate and electricity finance division provide financial analysis, advice and support to the Ministry of Finance, line ministries, agencies and other public bodies. This includes providing financial advice on a variety of proposals and initiatives.

We also implement certain programs, such as providing loans to public bodies, and the Ontario Nuclear Funds Agreement between the province and Ontario Power Generation.

CEFD also supports the Ministry of Finance and the OFA's planning and debt management activities, including the budget, the fall economic statement and fiscal plan.

We support the operations of the Ontario Electricity Financial Corp. As some of you may know, the OEFC is one of five successor corporations to Ontario Hydro. As established by the Electricity Act, 1998, OEFC is the legal continuation of Ontario Hydro. Pursuant to the Electricity Act, the OEFC's mandate includes managing its debt and other liabilities, including the former Ontario Hydro's legacy power purchase agreements signed with non-utility generators in the late 1980s and early 1990s, and providing financial assistance to the other successor corporations of Ontario Hydro. As OEFC has no staff, it retains the services of the OFA and the Ministry of Finance to carry out its daily operations.

As CEFD staff have financial expertise and specific knowledge and experience in the electricity sector, we are available to provide the CEO and deputy and Minister of Finance with financial analysis and advice on various policy options and initiatives, including those in the electricity sector, which may affect the province's finances and its direct and indirect liabilities.

Speaking to our involvement with the Fair Hydro Plan: As rate mitigation options were being developed by the Ministry of Energy, we reviewed the options and identified potential fiscal and financial impacts and risks, and

considerations to support the OFA and the Ministry of Finance in its central agency role.

Once cabinet had made a decision, and the Ontario Fair Hydro Plan Act was enacted, the division supported the implementation of the Fair Hydro Plan under the legislation, working with different parties in other parts of the OFA, the Ministries of Finance and Energy, and Treasury Board Secretariat, as well as the Independent Electricity System Operator and Ontario Power Generation.

As noted by Gadi, in working to support the implementation of global adjustment refinancing, we supported work on trying to reduce financial costs and risk exposure.

Mr. Gadi Mayman: As you'll recall, on October 4 the committee passed a motion ordering the production of records from the OFA related to the Fair Hydro Plan and the accounting treatment in the Ontario Teachers' Pension Plan and OPSEU pension plan.

On Thursday, October 25, the OFA delivered nearly 37,000 records to the Clerk of the Committee, containing nearly 600,000 pages of documents that we considered to be responsive to the committee's motion.

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To best respond to the committee's motion and in an effort to somewhat moderate issues of duplication, those individuals within the OFA most likely to have the most responsive documents within the time period specified by the committee were identified as custodians. Custodians were identified at the director level or above, unless there was a reason that the most responsive documents would be located in a different position within the OFA. In addition to Ronald and myself, there were nine other custodians at the OFA whose documents were searched.

We're confident that the almost 600,000 pages of records that the OFA has provided you represent a comprehensive record of the OFA's work related both to the Fair Hydro Plan and the accounting treatment of the Ontario Teachers' Pension Plan and OPSEU pension plan.

Finally, turning our attention to the mandate of the committee as it relates to the report of the Independent Financial Commission of Inquiry, we note that the committee may be interested in the province's finances from a debt and borrowing or OFA perspective. Ontario's net debt is projected to be \$347 billion in 2018-19, having more than doubled over the past 10 years from \$170 billion, when we entered the financial crisis and global recession in 2008-09. The net-debt-to-GDP ratio is currently forecast at 40.5% for 2018-19, slightly below the commission's estimate of 40.8%. Interest on debt is forecast to be \$12.5 billion in 2018-19, or almost \$900 dollars for every person in Ontario this fiscal year. Servicing this debt is Ontario's fourth-largest line item after health care, education and social services. Unfortunately, every dollar that is spent on paying interest is a dollar that cannot be spent to provide public services.

Mr. Chair, we would be happy to respond to the committee's questions.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you very much.

Just before I hand it over for questioning to the opposition, I'll just make a brief statement regarding order and

decorum. I would like to take a moment to caution all honourable members on their language and decorum in committee today. While I recognize that at times, discussion in committee can be heated, I would ask that members keep their remarks and tone temperate. This committee is an extension of the House, and members must maintain the same order and decorum as they would in chamber. If I find that a member is not upholding this conduct, I will move on and that member will lose the floor.

I will also remind members that when the Chair is speaking, your microphones will be turned off and you will not be on the record.

With that, we will now turn it over to the opposition for 20 minutes of questioning, starting with Ms. Shaw.

Ms. Sandy Shaw: Thank you for being here. I just want to start with a sort of high-level—there has been a lot of attention paid to this committee and a lot of attention paid to the commission of inquiry. There has been a lot of high language used, described by various leaders on this file. I just want to ask you, off the top of your head, what you feel about some of those statements.

For example, the Minister of Finance, Minister Vic Fedeli, was quoted as saying, “I can tell you that we now know the Fair Hydro Trust was all about a cover-up, and the first phase is exposing what the Fair Hydro Plan is.” Do you feel that this was a cover-up?

Mr. Gadi Mayman: I think that sometimes political language may get a little bit heated. As part of the bureaucracy, we like to remain a little bit removed from that. I think that there were obviously challenges that the commission identified with the Fair Hydro Plan, and I think I would leave it at that.

Ms. Sandy Shaw: Okay. Then, from the current Premier, we have a quote. I’d just like to get to the bottom of what you feel about these statements. He is quoted saying, “Worst of all was the cover-up. This was quite possibly the worst political cover-up in Ontario’s history. Kathleen Wynne and the Liberals lied to ... us.”

The Premier is also quoted as saying, referring to the Liberals, “They do not get to ... walk away from this. We will demand answers about where the money went. A lot of the Liberals got rich, really, really rich, under Kathleen Wynne and off the backs of the taxpayers of Ontario.”

How do you feel about those statements?

Mr. Gadi Mayman: Well, again, I think political statements on all sides sometimes get heated. That’s the role of the political side. From the bureaucratic side, we prefer to be a little bit more measured in how we respond.

Ms. Sandy Shaw: I think that’s the purpose of this committee, so we can get away from the rhetoric and down to the actual facts of the situation.

If I could just ask you a question: In your opening statement, you talked about a number of things—so not in any particular order. One of the things you talked about was that you advise crown agencies or assist them with their borrowing. Could you describe a little bit about which crown agencies you’re referring to and how that would take place in a normal set of circumstances?

Mr. Ronald Kwan: Well, with respect to the Ontario Electricity Financial Corp. in particular, it does have as part of its mandate providing financial assistance to those successor corporations of Ontario Hydro. That would include Ontario Power Generation, as well as the Independent Electricity System Operator.

More broadly for the OFA, there are a number of entities in our loans-to-public-bodies program that the OFA can provide loans to. That may include colleges, for example. It may include other entities that come forward, like loans to convention centres. There are credit facilities that are provided to other entities, such as Infrastructure Ontario.

Gadi, if you want to add other examples to this?

Ms. Catherine Fife: I can’t hear them. Can you ask them just to be closer?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Kwan, if you don’t mind, if you could you just move the speaker a bit closer, that would help. We’ll maybe turn off our fan in the back here as well.

Ms. Sandy Shaw: Oh, so that’s what it was.

Ms. Catherine Fife: Let’s start all over.

Ms. Sandy Shaw: Exactly.

Mr. Ronald Kwan: My apologies.

Ms. Sandy Shaw: It’s not on you. There was white noise back here.

Mr. Ronald Kwan: So I was specifically speaking at first about the Ontario Electricity Financial Corp. Part of its legislative mandate is to provide financial assistance to other successor corporations of Ontario Hydro, and that would include Ontario Power Generation as well as the Independent Electricity System Operator. With respect to the OFA, the OFA does have a loans-to-public-bodies program. That includes providing loans to entities such as colleges. It also provides financing to Infrastructure Ontario.

Ms. Sandy Shaw: Thank you for that.

Mr. Ronald Kwan: There are other entities as well. Those are just examples.

Ms. Sandy Shaw: Okay. I think we’ll get to it a little later on; this is high level for now. I guess what I wanted to ask you about, really—when we came to the Fair Hydro Plan, this was really about addressing hydro rates that were skyrocketing that people were having difficulty affording. My question to you is, what did you think were the key factors that were driving hydro rates in Ontario? Why were these rates so high? Why did we have to address this as a policy issue?

Mr. Ronald Kwan: Well, in part, I would say that there was a lot of excessive capacity that had been put in place in Ontario. In part, that was due to a significant change in the economic structure of the province from the 2008-09 recession. The total demand in the province had reached about 160 terawatt hours prior to the recession. It fell to about 140 terawatt hours following the recession and has never really gone back to the 150 to 160 range. In that context, there was a lot less demand.

There was a lot of supply that had been put in place in the middle part of the 2000s and continued on into the

latter part that had been contracted. So that led to a lot of fixed costs because there was a lot of capacity that was put in place—gas plants, solar capacity, wind capacity—that was being covered by a much smaller overall load in the electricity system. That was a challenge for the electricity pricing as the amount of cost that was in the system was built in from an expectation that demand would increase, and in fact it fell.

Ms. Sandy Shaw: So of those factors that you just identified—I would summarize that excess capacity was one of them, and the other one was fixed costs such as the actual—

Mr. Ronald Kwan: Well, the way in which first the Ontario Power Authority and then later the Independent Electricity System Operator went about their business is that they contracted long-term for supply. In order to have developers be able to cover their capital costs, they would have contracts that would provide them with sufficient payments to cover their initial capital costs, as well as their operating cost.

Once those contracts were in place, those payments were required to be made by the IESO to those generators even though that capacity may not be running very often so that there are fewer kilowatt hours to average out those fixed costs.

Ms. Sandy Shaw: So have those conditions changed much, or are they still in place right now? Would you summarize the conditions right now in terms of the overall energy system?

Mr. Ronald Kwan: I should qualify my remarks: I am with the Ontario Financing Authority, the Ministry of Finance.

Ms. Sandy Shaw: Yes. You seem to know a lot about it, though.

Mr. Ronald Kwan: The Ministry of Energy, Northern Development and Mines staff would be far more knowledgeable about this, as well as the experts at the IESO, who are responsible for providing for supply in Ontario.

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That said, we do follow the file at a little bit of a remove. To the extent that a lot of those contracts were put in place as long-term contracts, they will persist for quite a period of time, so those fixed costs that need to be paid for are in place while the contracts are in place.

Ms. Sandy Shaw: One of you had said in your opening statement that this current government has chosen to unwind the global adjustment refinancing. Are you saying that those contracts will remain in place?

Mr. Ronald Kwan: As I understand it, the change, at least for the moment, is that the Ministry of Energy, Northern Development and Mines will receive an appropriation to pay for what used to be the global adjustment refinancing being financed by the Fair Hydro Trust, so that the impact on ratepayers will not—they will continue to receive the same rates as if the global adjustment refinancing were continuing on. But that program will now be funded by government funding, not through the earlier mechanism.

Ms. Sandy Shaw: When you say the Fair Hydro Trust, it's often referred to as the OPG Trust. Are we talking about the same entity?

Mr. Ronald Kwan: I believe that OPG Trust has been used as a term, but I believe that the formal term is Fair Hydro Trust.

Ms. Sandy Shaw: Thank you. I just wanted to be clear.

Going back to when the Fair Hydro Trust was first developed, was your office or were you part of the discussions in developing the Fair Hydro Plan at the time?

Mr. Gadi Mayman: We were involved from the perspective of providing financial advice and also as an agency of the Ministry of Finance. The Ministry of Finance was obviously concerned with what the implications were for the fiscal plan.

Back in the fall of 2016, in the throne speech, the Wynne government determined they were going to, on the back of the tax base, provide a rebate, as the committee has heard, of 8% to offset the cost of the HST. They then determined that wasn't a sufficient enough drop to respond to the demand that people wanted lower electricity prices.

We had heard that there was further mitigation that was going to come. We had heard about this, I would say, probably in November or December 2016, but not a lot of details until probably January 2017.

The first time that I was directly involved was a meeting that I was at on January 16 at the secretary of cabinet's boardroom. It was with the three deputies who would have been involved: energy, finance and Treasury Board, and the secretary of cabinet, obviously. For the first part of the meeting Ed Clark was there, Ed Clark being the business adviser to Premier Wynne.

That was the first time that we had talked about what the government was looking for. At that point in time we really didn't have a lot of clarity as to what it was they wanted. We didn't know the magnitude of the rate relief that they were looking for and we also didn't know how much was going to be for residential and how much was going to be for industrial and commercial, so we were just speculating on that.

That then led into what was called the fiscal prep committee, which was a committee with the Cabinet Office, the Premier's office, the Ministry of Finance and Treasury Board that was used as a meeting place in the lead-up to the preparation of budgets and fall statements. In this particular case, it would have been budget. There were discussions there. They were talking about rate mitigation and that's the first time that we heard the concept of it being as large as 25%. That was sort of the start of it.

Our role became to assist the government, to provide advice to the government as to how they could do this at minimal cost. I think that this is one of the challenges that we faced. There were two different principles that the bureaucracy was asked to follow in trying to provide this rate mitigation. One was that electricity prices were to drop by 25%. That number had popped around a little bit. Sometimes it was higher, sometimes it was lower, but that's where we settled. The other part was to minimize the impact on the fiscal plan, and that was where the challenge lay. That ultimately resulted in the very complex

structure that became known as the Fair Hydro Plan and the Fair Hydro Trust.

Our role in the lead-up to it was to provide advice as to how it could be done the least expensively. So we were proposing that the OEFC provide the financing, the government provide the financing, because the government can borrow at lower costs than the trust could. There was, at a certain point in time—because there were a number of ideas that were bandied about—the concept of a completely independent third-party trust, which faded away because—I don't think it would have been financeable, and it would have also totally removed any form of control that the government may have had over electricity prices.

The challenge with the OEFC financing is that it did not fit within the accounting structure of having this not affect the deficit and the province's debt. Even though it was cheaper, the government ultimately decided, in a cabinet meeting—I believe it was March 1—to go forward with the structure that then became the Fair Hydro Plan and the Fair Hydro Plan legislation, the Ontario Fair Hydro Plan Act, and move forward from there.

Ms. Sandy Shaw: That's a lot of information. Thank you.

Mr. Gadi Mayman: Okay.

Ms. Sandy Shaw: Also, in your opening—you sort of said this, but I want you to maybe drill down a little bit—you talked about your role specifically being about risk reduction and identifying risk. Did you have any concerns? Were you able to express your concerns around risk, particularly on financing? We can talk about the policy and the politics of it, but did you identify risks around the financing structure that they were proposing?

Mr. Gadi Mayman: Yes, we did. We identified that, I would say, in two forms. One was the risk as to whether this was actually financeable, whether this third-party entity or this trust could actually go out and borrow the approximately \$2.5 billion a year that was going to have to be borrowed. That's a significant amount of money. We weren't certain that that was going to be the case, and we talked about that.

We also talked about the risks in terms of costs. We didn't know, at that point in time, how much more it was going to be, but we did know that it would be more expensive than the province borrowing in the taxpayers' name.

So we did identify those risks, yes.

Ms. Sandy Shaw: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Five minutes.

Ms. Sandy Shaw: Five minutes? Okay.

I was hoping that you could perhaps expand a little bit more on the role that Ed Clark played in that, beyond just those meetings. Was he involved in helping you determine or give advice on the ultimate financing structure?

Mr. Gadi Mayman: No, not that I'm aware of. He was at that initial meeting—and you will have seen this in the emails—because he was, quite frankly, somewhat skeptical of this structure and did not feel that that would necessarily be the best structure to move forward.

That was the only meeting that I was in, regarding this, that Mr. Clark was also in, that first meeting that I was at.

Ms. Sandy Shaw: Okay. I'm going to now ask you a favour. The thing that I really would like to get my head around, or understand, is the role of OPG as an independent crown corporation with one shareholder, which is the Minister of Energy, which was the case then and is the case now. They ultimately became the owners of the OPG trust or the Fair Hydro Trust.

Can you just give me the blow-by-blow of how that happened, or, from your perspective, how it developed, and what it looks like right now as it sits waiting to be unwound?

Mr. Gadi Mayman: Okay. I'll start off by saying that the Fair Hydro Trust will not be unwound. It will remain in place for the life of the bonds that were issued.

What will happen is that instead of the money being raised to pay for that, either through—sorry. I forget the term that was used, that was going to be used in future years, Ronald, to repay this.

Mr. Ronald Kwan: The Ministry of Energy will be getting an appropriation through the estimates process.

Mr. Gadi Mayman: No, under the Fair Hydro Trust, what was it called, the repayment mechanism?

Mr. Ronald Kwan: Oh, the clean energy adjustment.

Mr. Gadi Mayman: So instead of it being paid through the clean energy adjustment or through further borrowing by OPG, the two bonds that are outstanding, the subordinated debt, will continue to be paid. When an interest coupon becomes due, it will be paid for by the government. I just want to clarify that the Fair Hydro Trust will remain in place through this period, because you talked about it being unwound. That's not the case.

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In terms of OPG's role, OPG was brought in—and I don't know the exact date; I'm assuming some time in late January or early February, some time around then—as this process was going forward. The initial thought that was put forward was that OEFC would do the borrowing. But then when it turned out that for accounting purposes, because of the way that the OEFC is consolidated on a line-by-line basis, that that would end up on the province's books, that became, I'll call it, a non-viable option from the government's perspective.

There was a thought that there would be a completely independent third-party trust; I think I mentioned that in an earlier remark.

Ms. Sandy Shaw: You did, yes.

Mr. Gadi Mayman: That also wasn't a truly viable method of doing things. It probably wasn't financeable. There just probably wasn't the ability to do that.

OPG does have the ability to finance. They issue bonds in their own name. OPG is very sophisticated in the financial markets. They also, with the OFA—we manage together the fund that will ultimately be responsible for paying for the nuclear funds, as the nuclear reactors are shut down. That's an over-\$20-billion fund. So they had expertise. The government viewed them as an agency that would have expertise in the financial markets that would be able to do this, and that's why they brought them in.

Ms. Sandy Shaw: Do I have any time—

The Chair (Mr. Prabmeet Singh Sarkaria): Fifty seconds.

Ms. Sandy Shaw: Fifty seconds, okay.

You talked about the industrial and commercial sector and that ultimately the relief wasn't provided for that sector. Do you have any idea why that is the case?

Mr. Gadi Mayman: Ronald?

Mr. Ronald Kwan: There was some relief provided under the Fair Hydro Plan. There are smaller businesses which are eligible. The industrial conservation initiative was expanded, where the eligibility limit was lowered to a smaller size. It originally was for very large industrial consumers, and it has gradually been lowered in terms of the threshold.

There was supposed to be, as I recall from the cabinet minutes, which you have—the Minister of Energy was to go off and think about additional measures for businesses, but that was for a potential future initiative.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Ms. Sandy Shaw: Another iteration of it.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That concludes the time for the opposition. We'll go over to the government side with Mr. Downey for 20 minutes.

Mr. Doug Downey: Welcome. Thank you. It's been very informative so far. I just want to get some timeline pieces, if I can. You had mentioned that you had heard whispers, some discussions about the FHT, in November or December, but you didn't really directly hear about it until January 16, which was the date that you used.

Mr. Gadi Mayman: January 16 was the first time that I attended a meeting about it. We had heard about it and we had seen decks, I think—or was it emails, Ron?

Mr. Ronald Kwan: I would say—and I believe this has also been said by other people and other members of the public service—that in November and December, the Ministry of Energy was working on other options that they brought forward for consideration. We had seen a deck some time in early December that contained other options, not with respect to global adjustment refinancing.

I would say that I first heard, verbally, talk about refinancing a portion of the global adjustment probably in very, very late December, just before I left for the holidays. But there was nothing on paper until, as Gadi was saying, maybe the second week in January.

Mr. Doug Downey: Okay, because there was discussion with—I believe it was Mr. Orsini; I can't remember exactly who, but previous testimony talking about a meeting on January 18, which would be two days after this meeting.

Mr. Gadi Mayman: So I know, because I made notes of this—I looked back through my calendar before we appeared before the committee—that I was in a meeting on January 19. That was the fiscal prep committee meeting that I talked about. I don't know about a January 18 meeting. Given the magnitude of this, how complicated it was and how quickly it had to be executed, I'm sure that

there were a number of meetings, some of which either Ronald or I would have been invited to, or our colleagues at the OFA, and many of which we wouldn't have been.

The January 16 date and the January 19 date were the first meetings where I was involved where this had some reality to it, if I could put it that way. Before that, it was speculation as to what could be done and how could electricity rates be driven down. This was much more concrete.

Mr. Doug Downey: Okay. Again, this just helps me get the timeline when I look back later.

You just mentioned the OEFC could do the borrowing. It was deemed not a viable option, I think was the term. I'll start with: At what point in the timeline was that?

Mr. Gadi Mayman: That the OEFC was going to do, or looked at as an option to do, the borrowing?

Mr. Doug Downey: That it was taken off—well, either when it became an option or when it was taken off the table.

Mr. Gadi Mayman: It was really not completely taken off the table until even after the announcement had been made, but it was various iterations, because we kept on coming back with suggestions as to how the OEFC could be involved in order to lower the cost. When it completely got taken off the table would be in mid-March.

The cabinet meeting was on March 1; I believe the announcement was on March 2. At that point in time, we knew there was going to be a Fair Hydro Trust and it was going to be located at OPG, but there was a series of discussions that took place—I don't know what was the staff level, but certainly between myself and Ken Hartwick, the CFO at OPG—as to, “Fine, you have the trust. Can we buy all the debt from the trust?” In other words, the structure would have been that the OEFC goes out and borrows the money. The OEFC then lends the money to OPG. Because we're all consolidated, ultimately—although OPG is only on a one-line basis, not on a line-by-line basis—we would lend the money to them at our cost in order to lower the overall cost to ratepayers.

It was in mid- to late March that that was the last of the idea of the OEFC doing the borrowing, because at that point in time, it became obvious that if we did that, it would not meet the accounting tests that this was an independent entity, because all of their financing would have come through the government.

Mr. Doug Downey: It appeared from previous testimony that Mr. Hartwick really came up with this innovative design, based on previous experience in the States and otherwise. That was the impression I got.

Mr. Gadi Mayman: Yes, I think that Ken and his colleagues at OPG did have some ideas from there. They also had assistance from banks to design it. They brought in Goldman Sachs, which had a lot of expertise in the US, and they also had two Canadian banks advising them, RBC and CIBC, on this sort of structure.

Mr. Doug Downey: Would it have been Ken who then took it off the table? In your mind, who decided?

Mr. Gadi Mayman: I think that would have been Ken. Ken also has the advantage that I don't of being an

accountant. Ken did talk to, I believe, their controller, John Mauti, plus he would have talked to EY, who were their auditors, to see whether this would have been a viable solution to it. When Ken and I first spoke about it, he thought that if it could work, he would obviously prefer that route because it would have been less expensive and obviously a much simpler structure to do as well.

Mr. Doug Downey: I'm going to go back in time a little bit. You said that Mr. Clark was skeptical of the structure. Again, I'm trying to put these in timelines. He was in the first meeting on January 16, along with the DMs and the secretary of cabinet. Let me phrase it this way: How developed was the intention to move forward in January? Was it a speculating meeting, a brainstorming meeting or was it, "Here's where we're going and let's get going"?

Mr. Gadi Mayman: It was beyond speculation, I'd say. It was at that point of, "Let's get going." But there was nothing concrete at that point in time.

Mr. Clark's view, as I recall from that meeting, was that any structure we were trying to do in this way was going to be too complicated and would be treated with mistrust by the public, so I think he was prescient on that.

What we understood at that meeting and what we found out later—it was repeated to us on a regular basis later through fiscal prep and other meetings—is that the Premier's office had a different view on that.

Mr. Doug Downey: One of the two guiding principles was that it had to come off the deficit; it had to be removed from the books.

Mr. Gadi Mayman: The ultimate guiding principle was that electricity prices had to come down, that electricity prices were too high. The next principle was that the government was, at that point in time, in the sixth year of a seven-year plan to get back to balance. At that point in time in early 2017, they still very much aspired to that. The objective was to do this in a manner which would have the minimum impact on the fiscal plan.

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Mr. Doug Downey: The immediate fiscal plan.

Mr. Gadi Mayman: Yes. Well, the concept was that the ratepayer would be responsible for it, not the taxpayer, that the ratepayer would ultimately repay it through the clean energy adjustment, so that it would lower electricity prices immediately by a substantial amount—25%, as it turns out—but that rates would ultimately have to rise in order to repay that with the interest on it.

As far as the fiscal plan, the idea was to try to find a mechanism that would allow that whole thing—the initial part plus the repayment—to not affect the fiscal plan.

Mr. Doug Downey: But we could have had it on the rate base by doing what we did with the debt service charge previously. That was a rate base recovery—

Mr. Roman Baber: Debt retirement.

Mr. Doug Downey: Or a debt retirement charge, I'm sorry.

Mr. Gadi Mayman: It is a little bit different, though. The reason it was a little bit different is that the debt retirement charge was to recover debt that was already there, going back to the 1980s or 1990s when Darlington

was put in place. It took four years longer than what it was supposed to at a point in time when interest rates were at 17%, 18% or 19%.

There's something called the rule of 70, which is that you divide the interest rate into 70 and that'll give you how many years until a cost doubles. Well, if you take 70 divided by 17 or 18 you only have to multiply by four. That's four years, so the cost of Darlington ended up coming in at double what it was. The idea was that there was unsustainable debt that the old Ontario Hydro had.

The debt that could be sustained was left with OPG and Hydro One, the two main successor companies. The rest that was left over was left with OEFC and it was to be paid off through a number of streams, including earnings from the companies but also the debt retirement charge. This was different in that the debt hadn't already been created. This was something that was go-forward as opposed to something that was also there, so a little bit different.

Mr. Doug Downey: Okay, but in terms of tax base versus rate base, there were options.

Mr. Gadi Mayman: There were options, yes.

Mr. Doug Downey: Maybe if I can just get away from the technical a little bit and get your impressions of your comfort level. You are the face of going out and actually selling our debt and having to justify what's happening here, so if I could get some impressions of your comfort level with how this developed?

Mr. Gadi Mayman: The former government had a plan, the plan that was established in 2010. It was a plan that we had to, quite frankly, go out and market because we had to issue debt back then. In 2010 a seven-year plan seemed like an awfully long time and there was a lot of skepticism in the marketplace about it. But each year as we moved along, as we got closer to that target, it became—not easier to sell debt; it's a lot of debt, but let's just say that investors and credit-rating agencies maybe had a little bit more faith that this was to be achieved.

As the head of the OFA, I was really of mixed minds on the whole thing. On the one hand, I knew that electricity prices were going to go down. That was inevitable. There was political consensus on that, and that's somewhat rare in this province. All three parties said that electricity prices had to come down. Differences in where the blame was laid—that's not the issue. We knew that electricity prices were going to come down. If there was a mechanism that would have been available that would have allowed electricity prices to come down, with the ratepayer having to pay that back over time, and it not hitting the fiscal plan and therefore allowing the government to maintain the path to balance, that, from my perspective, is a good thing.

What gave me some discomfort—and I raised this with people in the government; I know I wasn't shy about it, and they would tell you I wasn't shy about it. There were three concerns that I think the bureaucracy as a whole had. There was the question as to whether it could be financed. Ultimately, in order to get it financed, we had to give a limited guarantee to it, which was called the provincial support agreement. That was one thing.

The second question was whether the accounting would actually work or not. There was a very fine line, or a thin path, that had to be gone to get to that, so there were questions about that. I had some discomfort as to whether we would be able to get there, but as a non-accountant, I was more of a receiver and the OFA was more of a receiver on this information rather than that.

The third one was the constitutional issue, which has been raised in this committee before—whether this was actually imposing a tax on future ratepayers as opposed to them paying what they fairly had. Again, that was something that the Ministry of Energy, through their consultant Navigant, were looking to respond to.

So yes, I did have some discomfort with this. We raised this discomfort with members of the government through a variety of meetings and all the way up to cabinet. But ultimately, government has to make a decision as to what they want to do.

Mr. Ronald Kwan: Could I just add one thing, Gadi? I think, when you were talking about whether it was financeable, you probably were also planning on saying that, of course, the cost of financing was an issue too. That was a major concern that we had with respect to the differential cost of financing, even if it were financeable.

Mr. Doug Downey: Thank you for that. I think one of my colleagues may follow up on some of the details of that differential, so we won't lose that very important point.

I heard you say, just a moment ago, about a decision being made, that it's a political decision, a political objective, but you referenced the Premier's office. I'm curious, because we're hearing from different people, whether this was being driven out of the Ministry of Energy or being driven out of finance or being driven out of the Premier's office, if you had a sense of that from your seat.

Mr. Gadi Mayman: I think there was broad consensus on the government side that electricity rates had to come down. I think there was also, in 2017—as opposed to in 2018, when the government turned on this—at the point in time when this project was moving forward, there was still certainly consensus between the President of the Treasury Board, the Minister of Finance, and the Premier and the Premier's office that a balanced budget for 2017-18 was necessary or an objective to strive for. I guess it was coming from a variety of places. The concept that electricity prices had to come down was clearly one of the highest priorities of the government, and it had been mentioned in the throne speech.

Mr. Doug Downey: You get a sense, when you go to meetings, of who is really driving the bus. Is it fair to say that this was a high enough priority—because it was a very high priority—that it was the Premier's office that was really making sure this was happening?

Mr. Gadi Mayman: Yes, that's fair.

Mr. Doug Downey: We're curious, because nobody could really tell us before, in the January 18 meeting—which you weren't at, so I'm not asking you that—who was calling the meetings. In terms of driving the bus, who was convening the meetings?

Mr. Gadi Mayman: I think we have to differentiate between process and practice, if I can call it that. Generally, if there's a meeting that involves the Premier's office with the bureaucracy, it would be Cabinet Office that would organize that meeting. But it certainly wouldn't have been Cabinet Office that would have been driving. This is a political imperative. Where they would have been in their conversations with us, with the Ministry of Finance, with the Ministry of Energy and with the Treasury Board was, "Please come up with options that the government can choose from as to the best way to mitigate electricity prices and, at the same time, have a minimal impact on the deficit."

The Chair (Mr. Prabmeet Singh Sarkaria): Four and a half minutes.

Mr. Doug Downey: All right. Thank you, Mr. Chair.

I'm just trying to understand the flow of information. I have a much better understanding now than I did about 140 days ago. A meeting would happen, DMs were there, the secretary of cabinet was there—were the political class involved in those meetings?

Mr. Gadi Mayman: It depended on the meeting. The first meeting that I talked about, the January 16 meeting, no; the secretary of cabinet had organized that. The fiscal prep meetings or the major project meetings: These were committees that were both the political side and the bureaucratic side.

Mr. Doug Downey: Okay. But Mr. Clark was there at the one—

Mr. Gadi Mayman: The only meeting that I was at on this topic that Mr. Clark was at was that first meeting in the secretary of cabinet's boardroom, the one I was at on January 16. He was only there for the first half of the meeting, and then he actually left, and the rest of us were there to figure out where to go.

Mr. Doug Downey: What would Mr. Clark have said at that meeting? What would his—

Mr. Gadi Mayman: Well, I think that my recollection—and I'm not just going totally by recollection, because it's almost two years ago. In providing our records to the committee, I went through my emails, so I do have an email that I actually sent to Ronald after the meeting on January 16. I said in it, "So to oversimplify, EC"—that would be Ed Clark—"thinks the GA refinancing, even if it works, is too complicated and will be treated with mistrust by the public, but apparently the PO (not represented at the meeting) seems somewhat enamored with the structure, probably because they think it has no fiscal impact. Cindy"—that's the provincial controller at the time—"wasn't at the meeting, so we didn't get a clear or definitive answer on that."

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That would be the mindset, I would say, at the time.

Mr. Doug Downey: A contemporaneous impression conveyed.

Mr. Gadi Mayman: Yes.

Mr. Doug Downey: Thank you for that.

Maybe I can get your impression of how things developed with relation to the Auditor General, because she

came in almost—well, very after the fact. Is that normal in the way that you construct—

Mr. Gadi Mayman: I do deal with the Auditor General. We deal with the Auditor General. For example, she and her office audit the OFA and the OEFC's annual financial statements. Her office does work with us on green bonds. So I do have a relationship with the Auditor General and the Auditor General has always been very professional and capable in her dealings with me, and I've always been satisfied.

With that, there are occasions where we have different views, but that's the nature of any—if we all agreed all the time, we wouldn't have to have meetings. We would just get along. We'd just go forward and do things.

I don't know generally in the dealings with the Auditor General how that would normally take place in terms of structures like that. That's probably a better question for Treasury Board or the Office of the Provincial Controller, which are the main points of contact with the Auditor General.

Mr. Doug Downey: Okay. Do you know when the controller came to join the public service? Is that something that you would have noted?

Mr. Gadi Mayman: You mean Cindy Veinot?

Mr. Doug Downey: Yes.

Mr. Gadi Mayman: I believe that would have been probably about six months prior to that because she was not there for the public accounts in the year where the pension adjustment was first—there was, first, a discussion or a debate or a disagreement between the Auditor General and the government on that. She arrived after that. I believe that was in public accounts for 2015-16, so I think she probably would have arrived in the fall of 2016, but I'm not absolutely certain of that, no.

Mr. Ronald Kwan: I believe that she arrived just as that previous public accounts was being wrapped up because she had arrived just after the audit work had been done. She was not able to pronounce or sign off on that for public accounts. I think she started probably in the very late summer of that year, not the fall.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That concludes the time for this 20-minute session. We'll turn it over to the opposition with Ms. Fife.

Ms. Catherine Fife: This is a strange committee. I have to put it out there. It's sort of like a crossover between Matlock and CSI and something like that. We're trying to figure out who was where, who was in the library, who had the candlestick holder and who else was in the library.

Maybe we all don't have the same goals, but the goal is to see if we can actually prevent a decision like this happening again because the so-called Fair Hydro Plan was pretty unfair, I think, to the citizens of this province, given the debt that's going to be accrued and the fact that the province borrowed the money and it cost \$4 billion extra or over what it should have; also, how politicians make decisions about political decisions just prior to an election. I think that's a fair thing to say.

The OFA has been fairly good about sending us lots of emails. In fact, it's almost impossible to go through them

all, I have to tell you, but there have been some that have caught our attention. We've all received them.

One of the emails goes all the way back to April 13, 2017. Actually, one of the emails is from Ken Kandeepan. Who is Ken?

Mr. Gadi Mayman: Ken is the chief financial and risk officer at the OFA.

Ms. Catherine Fife: Okay. So he's specifically around risk. He had written to Ron Kwan there and he said, "Thanks, Ron, can you please include me in the IESO credit needs meeting, since Cindy and I are having a number of discussions, with and without OPG, on developing a comprehensive accounting model for the GA smoothing...."

So Cindy Veinot was very much a part of this conversation from the beginning. Is that a fair thing to say?

The Chair (Mr. Prabmeet Singh Sarkaria): Just one second, Ms. Fife. Is there a possible chance, if they have it—do you have it in front of you? Would that be more of a clarification?

Ms. Catherine Fife: I do, but everyone else got them—

The Chair (Mr. Prabmeet Singh Sarkaria): For the witnesses, I mean—

Ms. Catherine Fife: Oh, okay. I'll give it to them—

The Chair (Mr. Prabmeet Singh Sarkaria): —just so they have some more clarification. I know yesterday we gave them some more.

Ms. Catherine Fife: I don't have extra copies for them.

The Chair (Mr. Prabmeet Singh Sarkaria): Are you comfortable answering without seeing? We could probably get it photocopied. That's what we were doing yesterday as well, just so the witness has the ability—

Ms. Catherine Fife: Okay. You know what? Why don't we do that, then? And then all my other notes will be on there for everybody else to see.

Just for them?

Interjection.

Ms. Catherine Fife: Yes. Just for the witnesses.

Then I'll move on. I'm going to follow up with that around, because Cindy Veinot is actually—

Interjection.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. Mr. Downey, a point of order?

Mr. Doug Downey: A point of order: I heard you say "just for the witnesses." We brought documents yesterday, and we distributed them to everybody.

Ms. Catherine Fife: You already have all of these emails. You already received them.

Mrs. Robin Martin: We haven't read 600,000.

The Chair (Mr. Prabmeet Singh Sarkaria): That's what we did yesterday as well, Ms. Fife.

Ms. Catherine Fife: All right. That's fine.

Mr. Ross Romano: As a courtesy, we always provide the emails.

Ms. Catherine Fife: Oh, "courtesy." That's good.

Okay, so that's fine. I have no trouble with that. It's fine.

The Chair (Mr. Prabmeet Singh Sarkaria): Okay. Thank you, Ms. Fife.

Mr. Ross Romano: Perhaps we could—

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Mr. Romano?

Mr. Ross Romano: In fairness, if my friend would like a two-to-five-minute recess to get copies of those so that we can all see what you're referring to—

The Chair (Mr. Prabmeet Singh Sarkaria): I believe the Clerk has sent to get the copies.

Ms. Catherine Fife: So we'll do a five-minute recess.

The Chair (Mr. Prabmeet Singh Sarkaria): A five-minute recess?

Ms. Catherine Fife: Yes, thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): If the committee is agreeable, we'll do a five-minute recess.

Mr. Ross Romano: Agreeable.

The Chair (Mr. Prabmeet Singh Sarkaria): Agreeable? Okay. The committee is in recess until 4:02.

The committee recessed from 1557 to 1604.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee is now back in session, and we will go back to questioning from the opposition, starting with Ms. Fife.

Ms. Catherine Fife: In this email from Ken Kandeepan to you, Ron—also copying you, Mr. Mayman—basically it says, “Cindy and I are having a number of discussions, with and without OPG, on developing a comprehensive accounting model for the GA smoothing.”

How important do you think it would be for us to call Cindy Veinot, who was the provincial controller at the time, to get a sense as to how the GA smoothing mechanism was created?

Mr. Ross Romano: Chair, point of order.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano?

Mr. Ross Romano: Point of order, Mr. Chair: This would be outside of the scope of this committee. I don't think that helps at all, with respect of the mandate of this particular committee.

The Chair (Mr. Prabmeet Singh Sarkaria): Could you repeat the question again, Ms. Fife?

Ms. Catherine Fife: In this email that's from Ken Kandeepan to Ronald Kwan, who is before us right now, and it's copying Mike Manning, Anna Strathy, Gavin He and Mr. Mayman, it says, “Thanks, Ron, can you pls include me in the IESO credit needs meeting, since Cindy and I are having a number of discussions, with and without OPG, on developing a comprehensive accounting model for the GA smoothing.” It seems to me that Ken is saying that he and Cindy Veinot are creating the GA smoothing mechanism and, therefore, would like to be included on any future meetings because they're designing the plan.

We are trying to get at the whole sense of: How did this Fair Hydro Plan strategy come into place? We've heard it described as “GA smoothing.” It has been described in some cabinet documents as “energy rate mitigation bending.” There are a lot of names for it, right? The members of the government have asked questions about who was in the room when these decisions were made. Clearly, Cindy Veinot was in the room when the decisions

were made. If you're applying a fair lens to these issues, I feel that this is a fair question of the member.

The Chair (Mr. Prabmeet Singh Sarkaria): I'll allow it.

Ms. Catherine Fife: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: What I meant by “outside of the scope” of the mandate—obviously, we are very interested to hear what these witnesses have to say with respect to how we can improve moving forward. With respect to the nature of witnesses being called and that aspect of this committee's work, I think that's within the role of the committee in terms of which witnesses ought to be called.

The Chair (Mr. Prabmeet Singh Sarkaria): Okay. I'll allow the question. Thank you, Mr. Romano.

Mr. Gadi Mayman: I don't think that either Ronald or I are in a position to recommend who the committee should hear from. That would be a decision of the committee. We have appeared and are happy to answer your questions, but I think that we would have to leave it to you to determine that.

Ms. Catherine Fife: Okay. Could I just confirm, though, that this email was sent to Mr. Kwan and it's by Mr. Kandeepan? He basically says that Cindy and he are creating a comprehensive accounting model for GA smoothing. Is that your understanding, that Cindy Veinot was part of the process?

Mr. Gadi Mayman: She was part of the process.

Ms. Catherine Fife: Thanks very much.

This same email—were you given a copy?

Mr. Gadi Mayman: Yes, thank you.

Ms. Catherine Fife: Okay. I'm sorry about that.

The next email is from yourself, Mr. Mayman, and you go on to say that this whole issue came up in the rate mitigation meeting. This is a different meeting than you had described earlier. Is that April 13?

Mr. Gadi Mayman: Yes. Just to go back to the timeline, this would have been after the cabinet decision to proceed with this, this would have been after the public announcement of it, and this would have been after the decision was made that the OEFC could not provide the financing for it.

There were a series of implementation meetings that took place. Those implementation meetings covered a broad spectrum of things that needed to be done, one of which was that the IESO had to make payments to generators, because the Fair Hydro Plan was not an attempt to reduce the amount of income the generators would have; they were to be kept whole.

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This left the IESO with a bit of a problem in that the amount of funding they would get from the local distribution companies, the LDCs, would not cover all the costs. So they had a gap, and that gap had to be financed. That gap was what was ultimately turned into what was called the asset, which was sold to the OPG Trust, to the Fair Hydro Trust, which was then financed. But there were periods of time when there were gaps, and the IESO

needed to know that they would have enough cash on hand in order to be able to pay the generators.

They had a line of credit with the OEFC already—the OEFC or OFA?

Mr. Ronald Kwan: Both, but the OFA one was the—

Mr. Gadi Mayman: They had a line of credit with us, but they had to expand this line of credit in order to manage those cash flows. That's what this meeting was about.

Ms. Catherine Fife: Okay. That's why it goes on to say, "The IESO people were happy to hear that" the OFA is now "on this." You're now advising this process, right?

Mr. Gadi Mayman: Advising, in that we were—I think by "on it," I'm probably saying that we were willing to lend them the money in the interim before they got paid by the Fair Hydro Trust, and then they could pay down the line of credit.

Ms. Catherine Fife: Okay, so that's what they say: "They're a little nervous about how they're going to finance the regulatory asset until OPG is set up to take it on and pay for it." So OFA is going to fill that gap by loaning the money.

Mr. Gadi Mayman: That's correct.

Ms. Catherine Fife: That's a common practice that you would do.

Mr. Gadi Mayman: Yes.

Ms. Catherine Fife: It goes on to say, "In the half-hour ... meeting" that you attended, "the discussion was around the legislation." At this point, we know what the legislation looks like. It goes on to say, in the bottom third, "The biggest point of contention was about OPG's need to have a direct recourse to ratepayers, and the legislative need for a thread directly from individual ratepayers to the lenders to the GA smoothing. The OEB doesn't like that concept at all."

That's the comment that I'm interested in unpacking a little bit. Can you recall what that conversation was like?

Mr. Gadi Mayman: I'll start and then Ron can fill it in, because there were a lot of things going on. I will give you as clear a recollection as I have of it.

This was very complicated. The whole structure was very complicated because it had to thread that needle that I talked about before, where it was going to be distinct enough from the province that it was not going to appear on the province's books but it was going to have to be certain enough, from an investor's perspective—the people who were buying the bonds—that they knew they were going to get repaid.

What OPG was advocating for, throughout the process—this was one example of this—was direct access at the period of repayment, so when the clean energy investment was going to be kicking in down the road, they would be able to have access to those ratepayers through the LDCs. The OEB did not like that construct because they felt that that tied OPG too closely to where the ratepayers were. That's what their discomfort with it was.

I don't know how that was resolved in the end, what ended up happening and how that was resolved to both the

OEB's and the OPG's satisfaction. I don't know, Ron, if you have anything to add on that.

Mr. Ronald Kwan: As Gadi was saying, the OFA does provide, as it had provided for a long period of time, a credit facility to the IESO. The IESO would still be the entity that would be receiving monies; however, the idea, then, was that OPG would have to have priority of access to that cash. One of the ways in which we got involved later on is that the IESO credit facility with the OFA had to be amended to allow for it, in effect, to be subordinating its interest in IESO cash to get repayment so that OPG would have priority access in order to be able to give comfort to its bondholders.

That's one way in which it was resolved. It was worked out through an alternative mechanism.

Ms. Catherine Fife: So that was the resolution later on down the line, an "everybody got taken care of" sort of thing?

Mr. Ronald Kwan: I believe that was one of the ways in which the structure was established to provide, in the implementation of the Fair Hydro Plan, more comfort to the bondholders, which then allowed OPG's trust, the Fair Hydro Trust, to be financeable.

Ms. Catherine Fife: Okay. After you clarify what the OEB didn't like about this whole concept, it goes on to say, "The other point that is of interest to us"—I'm sorry; this is still you writing, Mr. Mayman—"is that they are not looking at putting the guarantee mechanism into the legislation—although there will be some description in the legislation about what, I think they called indemnification will be needed, and then they will leave the guarantee to a commercial one." Can you explain that, please?

Mr. Gadi Mayman: Yes, because I spent three months of my life trying to sort that one out.

Ms. Catherine Fife: Yes, okay.

Mr. Gadi Mayman: What happened is that the banks, the dealers, that were going to be selling this debt—Goldman Sachs, RBC and CIBC—wanted to have as secure a guarantee as they possibly could. They wanted it legislated. They wanted a full guarantee that no matter what happened, the province was going to pay.

We at the OFA objected quite strenuously to this. The concept here was that there was going to be no risk transfer to the bondholders; there was going to be no risk transfer to the dealers who were representing the bondholders. All of the risk was going to fall back onto the province, but the benefits would be with the bondholders.

So, for that reason, it was determined that the legislation would not talk about the guarantee, and that the guarantee would be a negotiated one. We spent many, many hours working on that, all the way until the very end in November or December when the first bond issue was done, as to what that guarantee would look like.

I think we were successful in limiting that guarantee to, basically, two possible issues. One was that if a future government—because this program was to be in place for 30 years, which would be seven elections—were to unwind this, the province would step in and ensure that the bondholders received their interest payments and their

principal payments. The second one was if a court—and I assume this would have had to work its way all the way up to the Supreme Court—had determined that this law was ultra vires, that it was not constitutional.

Ms. Catherine Fife: What was that word that you used? Ultra vires?

The Chair (Mr. Prabmeet Singh Sarkaria): Just under four minutes.

Mr. Gadi Mayman: Ultra vires. Sorry, I shouldn't use these technical legal terms when I'm not a lawyer—

Ms. Catherine Fife: I heard “ultra virus.”

Interjection: It's a legal term.

Mr. Gadi Mayman: One of the concerns was that it might be determined by the courts that this wasn't constitutional because future ratepayers were going to be paying too much, as opposed to this spreading it evenly or fairly across all ratepayers—that future ratepayers were going to be overpaying.

So we narrowed down the provincial protection agreement, as the guarantee was ultimately called, to only cover those two things, as opposed to what the underwriters, the dealers, that were selling the bonds—they wanted to cover everything. We didn't go there.

Ms. Catherine Fife: So everybody got protected. Well, you tried to protect the province in some degree, right? Is that what you're saying?

Mr. Gadi Mayman: Yes.

Ms. Catherine Fife: Because the bondholders wanted the province to hold all the risk.

Mr. Gadi Mayman: That's correct.

Ms. Catherine Fife: But was the government of the day actually considering that to be an acceptable option? Or were you running interference for that?

Mr. Gadi Mayman: I think that the government of the day agreed to not put it into the legislation and to not provide that full guarantee. What we were left with, though, were instructions to make sure that this could be financed. It was left to us to negotiate the best possible commercial deal that we could on that guarantee, so the minimum amount of guarantee that we could have.

Ms. Catherine Fife: Okay. So you go on to say about OPG's dealer advisers want the full provincial guarantee. Then it goes on to say—can you touch on the indemnification? We don't have very much time. Is this an active conversation on a regular basis, where people are trying to protect themselves whenever they have anything to do with the government?

Mr. Gadi Mayman: No, that's not a regular—

Ms. Catherine Fife: It's not a regular thing.

Mr. Gadi Mayman: No.

Ms. Catherine Fife: So people were aware that this was—there have been a lot of names for it. But aside from being complex, and sort of working backwards and trying to thread that needle, which I think is an accurate description of what you had to do, it's as complex as you probably possibly could get.

It goes on to say, though—you comment that Cindy Veinot, “of course, as well as me for different reasons, is fussed about the nature of that guarantee, so we asked if

they could sort that out with the dealers before the legislation is tabled.”

Was that sorted out before the legislation?

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Mr. Gadi Mayman: No, it wasn't.

Ms. Catherine Fife: It wasn't.

Mr. Gadi Mayman: It was not—and I should never do emails with emojis in them, as I look at this.

Laughter.

Ms. Catherine Fife: Yes, I know. Are you embarrassed by that emoji?

Mr. Gadi Mayman: Yes, I am.

Ms. Catherine Fife: That's okay.

Mr. Gadi Mayman: At the OFA, we deal with dealers' bank underwriters all the time. It is a fair commercial negotiation between us over a variety of things. The dealers always try to do things to their advantage.

Our preference would have been that it had been sorted out early, because as we got closer and closer to the point in time when OPG Trust—or the Fair Hydro Trust, actually—had to do the borrowing, we were concerned that it would have given a bit of an advantage to the dealers.

Ms. Catherine Fife: Thank you. I think your last sentence is really telling, though. You go on to say, “We don't want to end up with the dealers holding OPG hostage six months from now—not that they'd ever do that, would they.”

You're in quite an interesting business, my friend.

Mr. Gadi Mayman: Yes, I am.

Ms. Catherine Fife: Thank you very much for that 20 minutes.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you very much. That concludes the 20 minutes for the opposition. We'll go over to the government side for 20 minutes of questioning, starting with Mr. Baber.

Mr. Roman Baber: Thank you, Mr. Mayman. Thank you, Mr. Kwan. Thank you for coming here today.

Mr. Mayman, I want to follow up on something you said at the commencement of your testimony and perhaps try to elaborate on that a little bit. I'm going to try to quote you to the best of my ability. You said that the OFA proposed that the government provide the financing because it would borrow at a lower cost. Then you said the challenge was that it would affect the books in a manner that the government did not want.

I'd like to bifurcate that statement and try to understand. I was hoping that you'd give us a little bit more detail with respect to that. The OFA proposed specifically that—go ahead.

Mr. Gadi Mayman: The OFA proposed—we were using the OEFC because the OEFC is responsible for borrowing for the electricity sector but, as Ronald had mentioned in his part of the introductory remarks, the OEFC is a corporation that exists, but has no staff, so the OFA does everything for it.

We had recommended that the OEFC do this. As a matter of fact, at the beginning of the process, I don't think that we had actually been the ones who had proposed this; I think this is where it had come to us from the proposal

from the government. They wanted the OEFC to do this. They recognized that that would be the most cost-efficient way of doing this.

The government had, as we've talked about before, two objectives: One was to lower electricity prices by 25%; the other was to achieve balance in 2017-18. The difficulty was that the additional cost of lowering it beyond the 8% that had already been done as a rebate against the HST portion was going to cost between \$2 billion and \$2.5 billion per year. So they were looking for a mechanism that would keep that completely on the rate base, not touching the tax base. By going through the OEFC, that did not work.

Mr. Roman Baber: When were you made to understand that the government wanted to devise a structure that would not affect the deficit?

Mr. Gadi Mayman: That was right from the beginning. When we had first heard about this, the instructions were to work together with the Ministry of Energy and Treasury Board, particularly the provincial controller's office, to try to find a mechanism that would allow both objectives to be met.

Mr. Ronald Kwan: Just a little bit of an expansion: I think, as Deputy Imbrogno said, in the December options that they provided and brought forward, there were quite a number of options, and as I was saying, they continued to bring forward options into January and February. There were a number of options that included moving certain items from the rate base to the tax base, including moving the Rural and Remote Rate Protection, the Ontario Electricity Support Program and other costs to affect the government funding. So there was already a very significant set of programs that the Ministry of Energy was proposing to move over to taxpayer-funded that had an impact on the deficit.

As Mr. Mayman was saying, the government seemed not to think that that was enough and it wanted to have the Ministry of Energy come forward with additional options. At that point, I think that they were feeling that those other options, particularly the global adjustment—perhaps if that were to hit the bottom line, that would be a lot more.

I think that they also, as Gadi was saying, first raised the issue of OEFC, thinking that that would keep it off the bottom line, but we had to explain to them, as we do have carried-over management at OEFC, that we know how OEFC is accounted for and that OEFC is accounted for in the public accounts on a line-by-line basis, so all of its revenues and expenses are consolidated into public accounts. Once they realized that, I think that they went off to look for other ways of achieving that particular option.

Mr. Roman Baber: Thank you, Mr. Kwan.

Mr. Mayman, you used the word "instructions." Could you kindly tell the committee who specifically, to your recollection, expressed those instructions to you?

Mr. Gadi Mayman: I suppose I heard it indirectly, because it was the secretary of cabinet who was relaying what needed to be done. Maybe "instructions" was—well, I was going to say maybe it's too strong a word, but I don't

think it is, because we were asked to do this. We were asked to be able to come up with options that could achieve both of those objectives.

But I do think, going back to my earlier testimony, that it was pretty clear that this was coming from the Premier's office, because this was clearly one of the government's highest priorities. It had been stated as such in the throne speech in the previous fall.

Mr. Roman Baber: If the government followed your recommendation and proceeded to use the OFA to finance the Fair Hydro Plan, then there would be immediately an annual cost associated therewith, and therefore the government would not be able to claim that it ran a balanced budget in fiscal 2017-18. Is that correct?

Mr. Gadi Mayman: The first part is absolutely correct, that there would have been an annual hit. The second part would have meant that the hole that had to be dug out of would have been that much deeper. It would have been \$2 billion to \$2.5 billion deeper.

They still could have—because don't forget, we were still before budget 2017—come up with other ways of filling that hole. But if that was the only thing that was done, yes, that would have made it more difficult.

Mr. Roman Baber: I understand. I also want to confirm that they expressly understood that financing through OPG would result in a higher interest expense than borrowing through the OFA.

Mr. Gadi Mayman: Yes, they were well aware of that.

Mr. Roman Baber: We heard from the FAO—in fact, we read in the FAO's report on the Fair Hydro Plan that they estimate the additional cost by borrowing through OPG over time to be approximately, given where they anticipate interest rates to go, \$4 billion. Have you heard that number before?

Mr. Gadi Mayman: Yes, I have.

Mr. Roman Baber: In their view, the priority, as you phrase it, to keep the costs of the plan off the books resulted in an additional \$4 billion worth of expense to the taxpayer or ratepayer—now it's the taxpayer, now that this structure did not work. Is this a proposition that you agree with?

Mr. Gadi Mayman: I'll start off by trying to address the \$4-billion number. We had also done internal calculations—and I did watch part of the testimony when Jeff Lyash was here, and OPG. They had talked about how their internal estimates, based on the two borrowings that they had done, was probably closer to \$2 billion. Again, that's an extrapolation assuming that the borrowing differential, the differential in cost between where the Fair Hydro Trust borrowed and where the province would have borrowed, remained at above that 40-basis-point level, which is where they had done it, as opposed to the 90 basis points that the FAO had assumed. We had done internal calculations and we came up with numbers that were in that ballpark of \$2 billion. It is still a large number. It is over a long period of time, but it's still a large number.

But just a little quibble with the last part of your question: That cost will not be the extra cost to the ratepayer now, because there were only two bond issues that were done, so it's not the whole program.

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Mr. Roman Baber: In other words, what you're saying is, by now allocating the cost onto the taxpayer going forward, the incoming—now the four-month-old Conservative government is going to be able to borrow through the Ontario Financing Authority, thereby realizing savings of anywhere between \$2 billion to \$4 billion of interest payments, at the very least.

Mr. Gadi Mayman: All other things being equal, yes, there will be savings because we are doing the borrowing now and we're doing it at the province's cost.

Mr. Roman Baber: Thank you. I'm going to turn it over to my colleague for now.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Thank you very much for being here today, and thank you for your very candid answers.

I've got some documents. I've provided you a copy, and I'm going to ask Madam Clerk here if we could just circulate those. Thank you.

I have some questions I want to ask you about some things that arise from some of what I've heard here today. At one point earlier, you talked about—Ken Hartwick came up with the design of what is, essentially, the Fair Hydro Plan, with the assistance of three banks: one US bank, Goldman Sachs, and Canadian banks RBC and CIBC.

The first document on your stacks is a document that starts off with the heading, "Good Afternoon." We tried to discuss this with Mr. Teliszewsky yesterday, and we ran out of time at the end of the day. But it's clearly a speech. When you read through it, it looks very obvious that it was probably delivered by then-Minister of Energy Glenn Thibeault, but we don't know that, so I really don't want to put those words.

If you could turn to page 3 of that document, I'm going to read that page out. I want to make sure that my friends across the way here have a copy of this. This is after outlining some risks, which I will actually come to in a moment. It says:

"These three factors mean that we have crafted our legislation very carefully to ensure that what we are presenting meets these standards.

"None of the lawyers, accountants or bond dealers can be described as 'happy' and also, none of them can be said to be terribly 'upset.'

"Everyone has had to put a bit of water in their wine.

"To be blunt, the legislative construct that we are about to review is not optional and cannot be subject of any additional political wrangling.

"The product we have today has been the result of thoughtful (and sometimes painful) negotiation with and between Ontario = OPG = dealers [as represented by RBC, CIBC and Goldmans].

"To be able to meet the government House leaders' deadlines, we put 'pens down' on the legislation last week and the intention is to introduce the bill later this week."

I'm going to stop there. The reason why I brought that up is, as I said, when you mentioned those three banks, and

we're talking about this—I'm curious, given your involvement, when there's this reference to "everyone has had to put a bit of water in their wine"—can you help me out a little bit in terms of what your take is on that?

Mr. Gadi Mayman: Yes, certainly. Absolutely. I just want to start, though, by going back to—I don't believe I said that Ken Hartwick designed the program. Ken Hartwick and his team, with the assistance of the banks, designed the actual bond issuance mechanism. I think Ken would be very upset if we left this room thinking that he was the one who designed the Fair Hydro Plan. I just wanted to clarify that.

Mr. Ross Romano: That's a fair point.

Mr. Gadi Mayman: The water in the wine, I suppose, as I was answering Ms. Fife's questions a few minutes ago—in the negotiations that go on, not only in this structure but any structure where it involves financing, the people who are making the investments want to have the highest possible return at the lowest possible risk. As issuers of the bonds, which would have been OPG in this case, in the name of their trust, the Fair Hydro Trust, what they want to do is issue those bonds at the lowest possible yield at the highest possible price. In representing the government, we wanted to transfer as much risk as we could to the bondholders.

There's this natural—if you're a bondholder, "Yes, I want to earn 6% on these bonds. I want to have absolutely no risk. I want it to be exactly like a provincial bond so if one day they don't pay it, or if something happens with the electricity system that makes it unrepayable, it's just like a provincial bond. I don't want to take any risk."

Well, we were providing advice—and OPG was very much on our side on this one—in order to say, "No, you've got to take on some risk here. You have to show some risk." That was also very important—

Mr. Ross Romano: OPG, that is.

Mr. Gadi Mayman: No. OPG was saying to the people who were buying this, "Don't think that what you're buying is pure provincial debt. That's not what you're going to get here." We were very much aligned with OPG on this. The idea was that risk was going to be transferred.

There were certain risks that couldn't be transferred: the risk of this being unconstitutional, the risk of a future government changing the legislation. That would not be fair to leave in the hands of the bondholder, and no bondholder would buy this if you did that. But there were other risks in the structure that could be left in their hands, and that's what OPG was trying to do.

Mr. Ross Romano: Okay. Basically, by "water in the wine," we could read that really literally in the sense that no one was going to be happy because this particular mechanism had a lot of risks. We've talked about a constitutional risk. We've talked about accounting risks. We've talked about financing risks. Those were risks that you could try to control, but there were other risks, for instance, if interest rates go up or if the demand for electricity goes down. Those are risks that you could not control that would completely destroy this entire system.

Mr. Gadi Mayman: That is correct.

The Chair (Mr. Prabmeet Singh Sarkaria): Four and a half minutes.

Mr. Ross Romano: Do you think that's part of the reason why they wanted legal indemnities from an OPG perspective, IESO, because there were a lot of risks there that they couldn't control?

Mr. Gadi Mayman: That very well may have been the case, but I don't know.

Mr. Ross Romano: Okay.

Mr. Gadi Mayman: I would also, just before we leave this, say that while none of the lawyers, accountants or bond dealers can be described as happy, I'm not sure that that's necessarily the case. The bond dealers and the investors through them actually did pretty well out of this, so—

Mr. Ross Romano: Oh, so that's who would have really—they would have gotten fairly rich off of this scheme?

Mr. Gadi Mayman: Well, I don't know whether they would have gotten any richer than they already are, but they—

Mr. Ross Romano: They would have done well.

Mr. Gadi Mayman: Well, they were getting—as it's turned out, so with hindsight, it's easy. What they've got now is effectively provincial debt at an interest rate that's higher than what they would have gotten if they had just gone out and bought Ontario bonds.

Mr. Ross Romano: Okay. There really can be no doubt that this had some very serious political motives. Is that not a fair comment?

Mr. Gadi Mayman: Yes, it is.

Mr. Ross Romano: Okay. I won't even get into the email that I provided; we went through that yesterday. By political, obviously, we're clear; re-election was a very big factor looking—

The Chair (Mr. Prabmeet Singh Sarkaria): Imputing motive, Mr. Romano.

Mr. Ross Romano: Okay. Well, then, we'll leave that alone.

When you made a reference to constitutionality—in document number 2, I've highlighted page 7. There's a reference here that there was a “moderately high constitutional risk that the financing proposal would result in an unconstitutional tax”—an unconstitutional tax. That was because of the fact that it was basically pushing the cost of electricity of today to the people of tomorrow, right?

Mr. Gadi Mayman: That's correct

Mr. Ross Romano: Okay.

The last point I want to raise—we went through this yesterday, but there was a document. I'm going to skip over number 3, but it was the fourth one and it's on the back page where it reads, “To that end, many of the enclosed concepts have been subject to careful (and painful) brokering between the various constituent entities,” and I'm going to go right to the last line, “As a result, the final legislative product is a fine knit sweater = please do not pull on any threads, as the entire product might yet unravel!”

What do you think about that statement and what do you think it is that this—this is from Mr. Teliszewsky to Mr. Andrew Bevan, chief of staff of energy to the chief of staff of the Premier. What were they afraid of unravelling?

Mr. Gadi Mayman: What had happened is that the announcement was made on March 2. There was a period of time until the legislation was presented in the House. This was sent on April 29, and I think the legislation was introduced in early May. During that period of time, there were these negotiations that we talked about that OPG was having with the dealers as to what was financeable. There were discussions as to the constitutionality of this, and the Ministry of Energy had engaged Navigant as a consultant to say that this was a fair allocation of costs. So all of these things were held together.

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I guess what Mr. Andrew Teliszewsky is saying to the Premier's office is that, while in many cases the legislation that is developed by a ministry will have last-minute input from the Premier's office, this is one where they really couldn't afford to do that because it might unravel the whole deal.

Mr. Ross Romano: Okay. Then, last question: Here on the first document I gave you, at page 2, there's a reference to accounting risk, which reads, “Accounting risk = make sure that we are creating a structure that meets reputable accounting opinion to ensure that the debt that is incurred doesn't represent a risk to balanced budget.”

This, again, comes down to that whole political motive thing we talked about. Obviously, the only way to balance the budget was to do it in this particular way that they chose to do it, through the Fair Hydro Plan, as opposed to what I trust your goal was at the start, from your comments—even though it was a lot cheaper to just simply borrow from the tax base, borrow from your group, on behalf of the government. There was really no other reason not to do what you originally suggested: It was the cheapest option and it was the easiest option. But the very difficult option, in order to get to a balanced budget, was to go the route they did with the Fair Hydro Plan.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Mr. Romano; I'm going to have to end the questioning there. We're a couple of seconds over.

We'll go over back to the opposition for 20 minutes, starting with Ms. Shaw.

Ms. Sandy Shaw: I want to just go back to some of the comments you made at the beginning about the deficit and the debt: the nature of that and its impact. A lot of this commission's advice is intended for us to inform future fiscal planning. That's what the commission is about. There is always this talk about the net-debt-to-GDP. We've talked about the increase of the net-debt-to-GDP. The commission report talks about setting an appropriate net-debt-to-GDP. I'd like to know what you think that would be.

Mr. Gadi Mayman: I think that the first step to moving the net-debt-to-GDP ratio down—and we want to move it down—is to move towards a balanced budget. Debt is created for the province from two things, broadly

speaking. One is the annual deficit of the province; the other is investments in capital, because what happens is, when we invest in capital, from an accounting perspective that gets spread over the useful life of the project. So if a subway is built and has a 30-year life and that subway is owned by the province, then the \$3 billion it costs for that subway is amortized at \$100 million a year. The impact on the deficit is only \$100 million a year, but the impact on debt is the \$3 billion that we had to borrow. So there are two ways that debt is created.

The GDP part of it is completely out of the government's control. The denominator in this is out of the government's control, which is why many people look at a balanced budget as a better fiscal metric than a debt-to-GDP ratio because a balanced budget, or a budgetary target, is something that the government does have much more control over.

I don't have in mind an exact number as to what a good debt-to-GDP ratio would be, but what we would recommend to a government of any stripe is to try to reduce that debt-to-GDP ratio over time.

Ms. Sandy Shaw: I just would like to comment on the fact that this magical 40%, that idea of 40%—it seemed to be that this was a hard red line that no government wanted to go over. It's a notion that I have that this entire fair hydro business, and all the work that it required, was simply to keep the net-debt-to-GDP below that number. In some way, I think that, if we're not careful in identifying what is a healthy range, we end up serving this political notion that we want to keep this net-debt-to-GDP below a certain level. In fact, I could maybe even say that this is how we got into this problem in the first place, with this artificial notion that this was a performance indicator that the government didn't want to see.

I'm respecting that people just don't seem to know. You're talking about how debt is a better indicator than the net-debt-to-GDP—I'm asking if that's what you think. The other thing is, how, as legislators, are we supposed to understand whether we're in a healthy range when we keep using that net-debt-to-GDP as an indicator?

Mr. Gadi Mayman: Deficit is an easier concept to understand as opposed to net debt or net-debt-to-GDP. To go back to an earlier part of your question, the former government's intention with the Fair Hydro Plan wasn't related to the net-debt-to-GDP ratio; it was related to the deficit and their desire to balance the budget and to stay on that track.

In terms of how, as legislators, the net-debt-to-GDP ratio is useful for you, the Auditor General, in her annual report in chapter 2—both the current Auditor General and her predecessor have talked about indicators of financial health. One of the indicators of financial health that they talk about is the debt-to-GDP ratio.

No one single measure is perfect, so it's good to look at a broad spectrum. The deficit is important. The deficit, I think, is something that people understand. People understand that more money is going out than is coming in a year. Debt: I'm not sure how much people can understand that, and debt-to-GDP makes it more complicated.

We look at a whole series of ratios and measures to look at financial health. We'll look at the debt-to-revenue ratio. We'll look at interest on debt as a percentage of revenue. These all go to the affordability of debt. It's not just the Auditor General and the FAO, who also look at these sorts of things and measure this; it's also rating agencies that will weigh in on this.

From my perspective at the OFA, because we have to go out and borrow, this year, \$33 billion to finance the province, what's most important to me is how investors treat this and that investors want to buy our debt. We spend a lot of our time meeting with investors and dealing with the banks to try to get insight into what investors are thinking. They're also not looking at one individual indicator or one individual ratio; they're looking at a wide variety of them. That's why debt-to-GDP is one of a number of things that can be looked at.

Ms. Sandy Shaw: Thank you. As you've said, there's a lot of debt that is still due to and due from the Fair Hydro Plan. My question for you would be around servicing that debt and your ability to borrow. There's an obligation now to the Fair Hydro Trust that the government has recorded of about \$1.6 million?

Mr. Gadi Mayman: Billion.

Ms. Sandy Shaw: Billion. Pardon me.

The Fair Hydro Plan: If we're refinancing that scheme, do you have any idea how it will be reassigned or realigned?

Mr. Gadi Mayman: What will happen is that the bonds that are out there already and the subordinated debt that is out there already will remain out there until their maturity date. Through the provincial protection agreement, we will step in. Every six months, for each bond issued, there is a coupon payment, an interest payment, that has to be made. We will just pay that out of the general funds of the government, the Consolidated Revenue Fund.

There will be no new borrowing under the Fair Hydro Plan, so it's just that \$1.8 billion that's outstanding; that's it. Going forward, what's happened is that the government has put in place a mechanism and will continue to put in place a mechanism in order to ensure that people's electricity rates don't go up. That's now part of the deficit. That is part of the \$14.5-billion deficit. That, as with all other financing that we do, will be done as part of the province's borrowing.

Ms. Sandy Shaw: So that is in the \$14.5 billion that we're talking about.

Mr. Gadi Mayman: It is, yes. That's correct.

Ms. Sandy Shaw: In terms of, again, looking at maintaining the deficit and the debt at what we were saying is a reasonable amount, can you tell me if you know anything about the Ontario Loan Act for 2018 and that \$1.9 billion?

Mr. Gadi Mayman: Yes, I do. That's the loan act that is currently in place. That's—

Mrs. Robin Martin: Point of order.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, Ms. Martin.

Mrs. Robin Martin: Again, I just don't see how this is relevant, because it's looking forward, not back, and we're trying to figure out what happened in the past.

The Chair (Mr. Prabmeet Singh Sarkaria): I tend to agree with that, Ms. Shaw, on that loan agreement act that you were specifying. If you could tie it to the mandate of the report or the FAO's report.

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Ms. Sandy Shaw: Sure, I'll do my best.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Ms. Sandy Shaw: As you've said, this is your mandate, which is to advise the government on risk and how to borrow and ways to borrow that reduce risk. Would this be something that you would have had in the past, this kind of an act? Would that be something that you would have given advice on in the past?

Mr. Gadi Mayman: Yes. The loan act is generally part of every budget. There are three different mechanisms under which the OFA receives authority from the government to borrow. One is a loan act. The loan act is for the new borrowing that has to take place every year. That is the deficit. It's also the net investment in capital—so the amount of cash that's going out for capital—and a couple of other things. That's one mechanism. There is a loan act in every budget.

We also have, under the Financial Administration Act, the ability to refinance maturing debt. If we have a bond issue that's \$1 billion and it matures on November 18 and we want to refinance that, we need to get authority from the government through an order in council under the Financial Administration Act. The Financial Administration Act is not a new act every year the way that the loan act is.

The final mechanism that we have to allow us to borrow is the Electricity Act, 1998. When the old Ontario Hydro was broken up and we were left with the stranded debt at OEFC, this was a mechanism that allowed us to borrow on behalf of the OEFC.

There are three different mechanisms, but the loan act is very common and it does exist in every budget.

Ms. Sandy Shaw: So it's a common way. It's very common, and it goes into legislation.

Mr. Gadi Mayman: It is. Yes. It's a way to give authority to us. When it's passed by the Legislature, there is an order in council that then basically delegates to the OFA the ability to borrow.

Ms. Sandy Shaw: When OPG was here, they said that the indebtedness of the Fair Hydro Trust was about, they say, \$1.8 billion. This is \$1.9 billion. Is that just a coincidence that it's the same amount?

Mr. Gadi Mayman: Yes, that's a complete coincidence.

Ms. Sandy Shaw: Okay. So my Spidey-sense can go away?

Mr. Gadi Mayman: That's a complete coincidence.

Ms. Sandy Shaw: Okay.

How much time do I have left, Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Just under 10 minutes—nine and a half minutes.

Ms. Sandy Shaw: Oh, that's a lot of time.

I want to just go back, even, just a little bit to when we were talking earlier about the debt and, I would just say, the fiscal health of the province and how you look at the conditions by which you borrow or don't borrow. When I look at the commission's report, almost every year from the reports that go back, there's a deficit, which contributed to the accumulating debt.

Mr. Gadi Mayman: Yes.

Ms. Sandy Shaw: It seems to me that it's significant whether this is a structural debt or if this is something that just comes out of a government that's looking to spend money during the pre-election time and so forth. Can you explain a little bit about why it's significant that a structural debt is different than just spending too much in one given year?

Mr. Gadi Mayman: It's a structural deficit.

Ms. Sandy Shaw: Sorry, thank you.

Mr. Gadi Mayman: This is why it's very complex. The deficit and debt—it gets confusing.

But the structural deficit and what that is: It means that without any other action taken—so without lowering spending or increasing taxes or generating revenues in some other way—the province, or whatever entity or government you're talking about, will carry on having deficits forever.

Usually in the case of a structural deficit, they get worse over time, because you have to pay interest on it and the interest adds to it, so it gets worse. A structural deficit is ongoing and chronic, if I could call it that, whereas a one-time deficit—not that I, in my role at the OFA, would recommend that a government run a deficit in any case, but a single deficit is much easier to manage.

Or it's a deficit that arises because of where we are in the economic cycle. What a structural deficit means is it doesn't matter where you are in the cycle. Generally, if there is a recession, a slowdown in growth, government will take in less revenue than what it had forecast it was going to take in and its expenditures will go up, because there are a number of programs that are needed. There are more people who are unemployed. It works against you that way. That's a cyclical deficit. That's a deficit because the economy is bad.

A structural deficit is a deficit that, no matter where the economy is, you're still running a deficit.

Ms. Sandy Shaw: The general wisdom is that if you're in a period of fiscal and economic prosperity, the government should either pay down the debt or not acquire additional debt. That's where you save for a rainy day. It's generally the notion.

My question for you is, given that—there are a lot of mixed signals, not only from economists, about whether we're in a period of prosperity or whether we're moving into a downturn or a recession. The current government talks a lot about being open for business and the fact that we're going to return Ontario back to its economic powerhouse state. Can you tell me whether or not you feel like this government's assessment of whether or not we're in a period of economic growth or whether we're looking at a downturn—that would be important to you because you look to the market to borrow money, right?

The Chair (Mr. Prabmeet Singh Sarkaria): If you could just tie it into the context of the report and the timing of the report.

Ms. Sandy Shaw: Sure.

The Chair (Mr. Prabmeet Singh Sarkaria): We're going after the report. I'm not sure if it would be appropriate given the mandate. But if you can speak to it in terms of the timing of the report and when that was, that would be fine.

Ms. Sandy Shaw: Okay. I guess I'm getting at the point where the commission is giving advice that's supposed to inform future fiscal planning.

The Chair (Mr. Prabmeet Singh Sarkaria): Okay, that's fair.

Ms. Sandy Shaw: As legislators, I suppose the question would be around the notion as to whether or not previous or current policy is in a context of whether we're in an economic downturn or a period of prosperity. How would any government that you were involved in, even around the time of the Fair Hydro Plan, have known that? What would you have used to determine whether it was a period of prosperity or economic downturn?

Mr. Gadi Mayman: Well, we are in a period of economic growth. It's somewhat muted economic growth, it's in about the 2% range, but we are in a period of growth.

The government uses private sector forecasts. When the Ministry of Finance is preparing the budget, we use private sector forecasts, and then usually shave a little bit off of the top just to provide some caution to it.

It's very rare that somebody will forecast a recession or a downturn. But I think that it's somewhere in the commission report that while nobody forecasts a downturn, we should be prepared for one. That's the point of why we would recommend that governments strive for balanced budgets.

That's always why we would recommend, as the face of the government in borrowing money—we want to be able to achieve that borrowing at the lowest possible cost. We would look for a debt-to-GDP ratio that would stabilize and decline.

The Chair (Mr. Prabmeet Singh Sarkaria): Just under four and a half minutes.

Ms. Sandy Shaw: The other thing that you mentioned is that one of the biggest ways you can control that is moving to balance. The commission's report says that they recommend moving to balance in a prudent and appropriate timeline. Can you give us more details on what a prudent and appropriate timeline would be to move to balance?

Mr. Gadi Mayman: That would have to be a decision of the government of the day as to what they determine to be prudent, because there are factors that have to be weighed on both sides. A government should want to achieve balance, but if they go either too quickly or too slowly, that can have repercussions. If it's too slowly, then that means we accumulate more debt along the way. If we go too quickly, that affects people.

So that is really a political decision, and I say that in the most positive way. I know with this committee we've

talked about political decisions being sometimes bad things, but there are political decisions that are very good things. Politicians, it's your job to look out for the needs of the people.

Ms. Sandy Shaw: Thank you. I think my colleague has a couple of questions.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof?

Mr. John Vanthof: You bring up a good point about political decisions because many times it's been brought up in this committee, "Was this decision made for political reasons?" And woe be the government, whatever party, that doesn't make decisions based on political reasons.

When the government came to you regarding the Fair Hydro Plan, at whatever point it was, you made it pretty clear that it had two main goals. They wanted to drop hydro rates for the good of the people, and also as a political decision, and they also didn't really want to affect their budget projections, right?

Mr. Gadi Mayman: That's correct.

Mr. John Vanthof: Is that unique? Not those two issues, but in your long, esteemed careers, is it unusual for a government to come to you and say, "Okay, we're thinking about doing this and we have two goals"? Is this an outlier or is this part of the political process?

Mr. Gadi Mayman: It's not an outlier in and of itself, because every day Treasury Board faces decisions as to how to implement programs and how much it's going to cost. There are trade-offs.

What I think was unique about the Fair Hydro Plan, though, was the size and complexity of it. I think it's fair to say that it was much larger and much more complex than many of the sorts of trade-offs out there that we normally deal with. As you said, people want things, people need things, but you have to pay for them, and how do you balance that off?

Mr. John Vanthof: How long?

The Chair (Mr. Prabmeet Singh Sarkaria): A minute and 30 seconds.

1700

Mr. John Vanthof: So for a program of that size and that complexity, and the speed at which it had to be designed—what I'm getting from multiple testimonies is that this isn't something that's well thought out over years; this is something that causes problems as it's going on, and it has to be tinkered with to actually make it work.

Mr. Gadi Mayman: Yes, and so this did take an extended period of time, but the public announcement that took place after the cabinet decision on March 1 to March 2—as we've testified before and previous witnesses have testified, really the bulk of the work started in December 2016 and January 2017. There were concerns. In the records that you have and the emails that you have, you will see that there were concerns expressed not only by the OFA—I can only speak on behalf of the OFA, but I've seen the other records and I've seen the emails to me, or conversations that I've had. There were others in the bureaucracy who were very concerned about the time that it had to be done in. But it was needed to be done in that

time in order to be able to lower prices in a timely manner. So, again: trade-offs. Governing is about trade-offs.

Mr. John Vanthof: And—

The Chair (Mr. Prabmeet Singh Sarkaria): Nine seconds. Probably not.

Mr. John Vanthof: Okay. I will defer and we'll come back.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. We'll go over to the final 20 minutes for the government side, and then two 10-minutes to conclude. We'll go to Ms. Martin for 20 minutes with the government side. Thank you.

Mrs. Robin Martin: I wanted to ask about the financing risks. We talked a little bit about the constitutional risks and legal risks. I think we didn't talk as much about what you saw as the financing risks in this plan, and I think that's maybe more your area, so can you just tell us in general what you saw as the financing risks in the plan?

Mr. Gadi Mayman: There were two parts to the financing risk. One part, which we've talked about pretty extensively already today, is the extra cost that was attached to it. The other side was whether this large, complex trust was going to be financeable at all: in other words, never mind how much more it was going to cost, whether they would be able to go out and borrow the \$2 billion to \$2.5 billion a year that they needed to borrow. The ultimate financing risk was whether it was financeable or not.

Where this ended up having a lot of involvement for us over an extended period of time—we've talked a little bit about this already in, I think it was, Ms. Fife's question about the emails—is this negotiation that took place. The negotiation was basically that we wanted to provide the minimum amount. We wanted to provide through OPG to the Fair Hydro Trust the minimum amount of guarantee, but it had to be enough so that it was financeable.

If we had just said, "Nope, there's no backstop here from the Ontario government," then what would have happened is that no bond investor would have bought these bonds, because they would have said, "This is really risky. I'm buying a 20-year bond. Twenty years is five elections, and how do I know whether a future government walks away from this? How do I know whether a judge comes to a determination that this is non-constitutional? I'm not going to buy this." So we had to find something that was acceptable to them, that they would buy those bonds. That was the trade-off and the negotiation that was taking place.

Mrs. Robin Martin: Okay. And did that discussion happen before the announcement by the government on March 2, or thereafter as you were working on implementation?

Mr. Gadi Mayman: It happened after, as we were working on implementation.

Mrs. Robin Martin: Okay.

Mr. Ronald Kwan: I will say that the likely requirement for some kind of guarantee was discussed just before the March 2 announcement, but the actual work in defining that and providing for it in the legislation, and then the negotiation, happened over a much extended

period of time. I think, as Gadi was saying, it ran right into December.

Mrs. Robin Martin: Now, I don't have copies of the emails that I managed to review for everybody, but I did notice in some of your comments in the emails—I think I was looking specifically at Mr. Kwan's emails, but Mr. Mayman, you were on them often as well—there was some concern expressed about interest on the debt in those emails, and about how the ratepayers would understand this project and whether OPG would be getting a return on equity etc. Do you have any comments that you can enlighten us with about that? I have the emails here, but I don't have copies for everybody.

Mr. Ronald Kwan: As you may recall, through the structure that the Auditor General presented in her report as well as other documents that I'm sure you have in front of you, the Fair Hydro Trust was going to be financed by three mechanisms, broadly speaking. The Fair Hydro Trust was going to go to the market itself, or borrow itself, about 51% of that financing that it required. The other 49% was going to be coming from Ontario Power Generation, and OPG itself would be raising 5% of that from its own borrowing, and 44% of that was coming from an equity injection from the province. That equity injection then, of course, would have an impact on the borrowing plan of the OFA and affect the total interest on the debt of the province.

The question then arose: What's the impact of that on the bottom line of the province? There would not be, on a prospective basis, an impact because, while there would be at the first instance an interest cost to the province in borrowing that amount to provide that amount to OPG, OPG would then be lending that amount to the Fair Hydro Trust, and the Fair Hydro Trust would be paying an interest rate to OPG. That would balance off between the earnings that OPG would get and the interest on the debt that the province was paying.

I'm thinking that's what you're asking about—

Mrs. Robin Martin: I think so. I think that's what it was. I was trying to follow the discussion. I think that covers it.

You said that this is much larger and much more complex, and that's how it differs from things you've seen before. I was reading the Financial Accountability Officer's report, and he talks about the cost of this over time. One of the issues he points out is that it will be more expensive if the government has to borrow money every year to fund this, if it can't fund it out of revenues. Can you just comment on that? Do you agree with the Financial Accountability Officer?

Mr. Ronald Kwan: I'm not quite sure. Gadi might have something to say about this.

I think there was some discussion early on in the discussion of the Fair Hydro Plan that some of the earlier options that the Ministry of Energy had been bringing forward were even larger than the amount of borrowing that was contemplated in the overall 25% reduction. If that amount of borrowing was added to the existing provincial borrowing program, that could have an impact on the cost

of debt for the province as a whole. It's hard to gauge in advance of what the impact would be for each additional \$1 billion, \$2 billion or \$4 billion a year that we would be borrowing, but qualitatively, I think it's a fair comment that there could be an impact on the cost of debt for the province.

Mr. Gadi Mayman: I brought with me the FAO's report. I think what you're referring to is on pages 6 and 7 of the report. Basically, what they're talking about—earlier on in our testimony, and I think Ronald had talked about this, we had been focusing on the global adjustment refinancing, which was to be on the rate base. There were also components of the Fair Hydro Plan as a whole, the lowering by 25%, that were on the tax base. What the FAO is talking about in their analysis—they're going over a very long period, a 30-year period. What they're talking about is if those parts that are on the province's books—the 8% rebate being the biggest one, but there are a few other things—if those had to be financed because there was a deficit because of them, there would be interest that would have to be paid on it. That's how they added extra money on top of it.

Mrs. Robin Martin: Okay. Thank you for the explanation.

It seems like such large numbers, as we've already commented, are involved. Have you ever seen government making a decision like this that is so big a financing and so costly for government? Have you seen that before?

Mr. Gadi Mayman: Well, it is a \$150-billion budget, and it's a large program, but it's over a long period of time. Yes, governments do make decisions regularly on large amounts.

This one particular program was somewhat unique in that the structure that it was modelled on in the US, which Ken Hartwick and Jeff Lyash had talked about when they were in front of you, was much smaller; it was for \$1-billion or \$2-billion projects. This was up to \$25 billion, I believe it peaked at. So in that way it was unique. Governments do make decisions on large projects. The Eglinton Crosstown, for example, is a multi-billion-dollar project. So in and of itself, that's not unique. It was when you put all the little pieces together that it became unique.

1710

Mrs. Robin Martin: Is there a concern—I think I've seen it in some of the documents, maybe in the Financial Accountability Officer's or the Auditor General's report on the Fair Hydro Plan—about the impact on the government's ability to borrow in the future?

Mr. Gadi Mayman: Yes, there were concerns expressed by the FAO on that. Again, we have a lot of interaction with the FAO. We talk to the FAO and his staff all the time. I think they, like the Auditor General, do a very, very good job in very difficult circumstances. That doesn't mean that we always agree with them, and this is one where I'd say that we disagreed. We have been able to finance the province very effectively and we expect to be able to continue to be able to do that.

Mrs. Robin Martin: We've had multiple credit rating downgrades under the former Liberal government. I was

wondering if you could just say whether you thought the Fair Hydro Plan—and maybe that was part of what you just said—would have an impact on that.

Mr. Gadi Mayman: I don't think the Fair Hydro Plan in and of itself—I hate to speak on behalf of rating agencies and I never want to get rating agencies mad at me, so I'm going to be really careful with what I say here.

Mrs. Robin Martin: Please do.

Mr. Gadi Mayman: But I don't think that it was the Fair Hydro Plan in and of itself that resulted in the negative outlooks that were put on the province after the last budget. That was more related to the deficit that came into play. The Fair Hydro Plan and the amount of money that was there was one component of it, but it was just more generally the fact that the government had moved off of the track of balancing by 2017-18—or staying balanced afterwards.

Mrs. Robin Martin: So the fact that they moved in their last budget to spend more had an impact on—

Mr. Gadi Mayman: Yes. I think the way the rating agencies would talk about it is probably in terms of loosening the fiscal discipline, and that is what had an impact on the scoring.

Mrs. Robin Martin: I have to ask the question: Did you feel upset, having worked through all of these problems with the Fair Hydro Plan being a very complex structure, to find the government then announce that they were going to go back into deficit from trying to keep it down to balanced?

Mr. Gadi Mayman: I wouldn't say “upset” about it. The Fair Hydro Plan was work that we had to do. It was very complex. We may have had—we did have; you've seen our emails—some objections to the way that it was rolled out, but our role is to provide advice and then, whether that advice is acted on or not, when a cabinet decision is made, to implement that advice. Because we're part of the Ministry of Finance, we wanted to do it in the most cost-effective way possible. I think that most people in government would want to do that. They want great programs, but at the lowest possible price.

I think it's fair to say that those of us who had been very involved, going back to 2010 through the financial crisis and moving towards a balanced budget, were disappointed that the government chose to move away from that. But again, that's not our role. Our role is to then implement it. The government moved away from it, and we then continued to provide the financing for the government.

Mrs. Robin Martin: I just want to make sure that we have asked you, and I'm not sure we have yet, what objections, specifically, you had—you mentioned it again—to the way it was rolled out. I want to make sure that we understand all of your objections.

Mr. Gadi Mayman: The most significant one was the fact that we were not doing the borrowing. It's not that we want to borrow for everything; we'd be quite happy to have others borrow. But in this case we were concerned that there was not sufficient risk transfer to the investors to offset that extra cost. There are times when we're very happy to have others borrow, because the risk is

transferred. If they're taking on the risk, then they should be rewarded for that. That's how it works.

In this particular case, we had concerns that that risk was not being sufficiently transferred to justify that extra cost.

Mrs. Robin Martin: Okay.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: What was your mechanism for expressing concern? Who did you feel you could voice concerns to?

Mr. Gadi Mayman: Just about everybody. I don't mean to be—that sounds a little bit strange. But I'm very privileged in the role that I have in that I have access to decision-makers, so I was able to express that view first, to check it with the people I work with at the OFA to make sure that I'm not on some crazy island off on my own.

I also conferred with my colleagues within the Ministry of Finance, all the way up to the deputy minister and the minister and the minister's chief of staff. We also had discussions in broader forms through this FPC mechanism—the fiscal prep committee—to express the concerns I had that were specifically related to what the OFA does, that were specifically related to the financing part and the concerns, as this program was first being envisioned, as to whether it was financeable at all, whether we were creating something that just wouldn't stand on its own; but then also, even if it was financeable, as to how we were getting value for the ratepayers and the taxpayers from it.

I was able to express that to everyone. I didn't feel that I was constrained in that and I didn't feel at all intimidated to do that.

Ms. Lindsey Park: That's very helpful. As you can appreciate, we're putting together a picture. We weren't there when these decisions were made.

I heard you mention the Minister of Finance. At the time, that would have been Minister Sousa?

Mr. Gadi Mayman: Sousa, yes.

Ms. Lindsey Park: It's okay if you don't remember names. We're filling it in here. Who was the minister's chief of staff at the time?

Mr. Gadi Mayman: Ali Ghiassi was his chief of staff.

Ms. Lindsey Park: Then I believe you mentioned you would have raised concerns to the deputy minister as well?

Mr. Gadi Mayman: Yes. Scott Thompson, who has appeared before the committee already.

Ms. Lindsey Park: Gotcha.

The Chair (Mr. Prabmeet Singh Sarkaria): Five minutes.

Ms. Lindsey Park: That's within the Ministry of Finance. Would you have expressed to any other ministries—the Ministry of Energy was obviously very involved in this. Would they be people you would have expressed concerns to as well?

Mr. Gadi Mayman: Yes. The concerns that we had on the cost of financing and the financeability we would have certainly shared with a variety of people within the ministry, all the way up to and including the deputy minister and the chief of staff to the Minister of Energy.

Ms. Lindsey Park: The deputy minister, I believe, also appeared before us—Mr. Imbrogno. Would that be right?

Mr. Gadi Mayman: Yes, that's correct.

Ms. Lindsey Park: Then the chief of staff, Mr. Teliszewsky—that sounds right as well?

Mr. Gadi Mayman: Yes.

Ms. Lindsey Park: Did you have a chance to speak with the actual Minister of Energy on occasion to raise your concerns?

Mr. Gadi Mayman: I would have been in meetings on occasion where the Minister of Energy was there, but those would have been much broader meetings. My narrow concern on the financing would not have been an issue that would have been talked about at those meetings.

Ms. Lindsey Park: That makes sense.

Would there be anyone you directly raised concerns to within the Premier's office or Cabinet Office, or the Premier herself?

Mr. Gadi Mayman: On this particular issue, I don't think that I would have raised it with the Premier herself the same way as with Minister Thibeault—our concerns were a small part of it. But these issues were certainly raised with the secretary of cabinet. It made up part of the cabinet submission that went on March 1. There's a whole page on OFA concerns. So while I would not have addressed it directly with the Premier, she certainly would have been aware of it, because the former Premier was very good at reading through everything that came across her desk and went to cabinet, so she would have been aware of it. Then through the fiscal prep committee, the senior members of her office would have heard my concerns.

Ms. Lindsey Park: Sorry, I'm just checking the time here.

The Chair (Mr. Prabmeet Singh Sarkaria): Three minutes.

Ms. Lindsey Park: Three minutes.

Maybe if you can describe broadly if there are particular—obviously, this is lots of people you're mentioning. Are there particular reactions that stand out to you? What was the response when you raised these concerns?

Mr. Gadi Mayman: I think people were trying to achieve the dual goals. They truly believed that they could have been achieved, that there was a mechanism to get there. I think they also recognized that there were costs to that. I did hear public speeches from the Premier where she did talk about how there were going to be interest costs and those interest costs were a part of what was going to be made up from future ratepayers through the clean energy adjustment. It wasn't just repaying the principal of this debt that was incurred, but it was the principal as well.

So I think that people were thoughtful about it—

Interjection.

Mr. Gadi Mayman: Interest and principal, yes. Sorry.

I think that decision-makers were thoughtful about this, but there were two imperatives that they were trying to achieve that were very hard to achieve both at the same time.

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Ms. Lindsey Park: And what were they? I think this is excellent, how you're presenting it to us. What were those two objectives?

Mr. Gadi Mayman: The two were lower electricity bills and a balanced budget.

Ms. Lindsey Park: And that was made very clear to you? The balanced budget wasn't an option; this was one of the primary goals and the only option?

Mr. Gadi Mayman: Yes. In 2017, the balanced budget was the only option. By the time we got to January or February 2018, the government had obviously changed direction on that.

Ms. Lindsey Park: That's great. I just want to, lastly—and hopefully, we don't run out of time here. I'm just going to quote something from Steve Orsini when he appeared before us, just in case you want to add context to it. He said, "The Ontario Financing Authority developed a structure to mitigate some of the financial risks. You couldn't mitigate the size of the debt that was growing; that one you just couldn't."

Maybe you want to talk about specifically what you think he was talking about there, or if you want to add some comments.

Mr. Gadi Mayman: I'm guessing that what he was talking about there—and the secretary of cabinet is very familiar with the OFA, because he used to be Deputy Minister of Finance, and the Deputy Minister of Finance is also the chair of the OFA, under the legislation we're established on. So he's very familiar with us and what we do.

He knew that we were very involved in the negotiations to assist OPG in getting the lowest possible cost. It was their debt; they were doing it on their behalf. But the guarantee—we were working hand in hand, hand in glove, with OPG in order to minimize what that guarantee was going to be. I think that's probably what he was referring to.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That's going to conclude the time for the government. For our final 10-minute session with the opposition, we're starting with Mr. Vanthof.

Interjection: We have 10 minutes?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, yes. You have 10 minutes as well.

Mr. John Vanthof: In the same vein of the last questioner, did you at any time express concerns to the provincial controller, Cindy Veinot?

Mr. Gadi Mayman: Yes. I would have regular conversations with a variety of people within Treasury Board, and the provincial controller was within Treasury Board, so yes, I would have had discussions with her.

Mr. John Vanthof: And was she fairly involved in the overall process?

Mr. Gadi Mayman: Yes, the provincial controller was quite involved in determining whether the accounting would work.

Mr. John Vanthof: This may seem like an odd question, but is the provincial controller fairly involved in the finances of the province?

Mr. Gadi Mayman: So, by finances—

Mr. John Vanthof: Well, of how the government—for your average person, what does the provincial controller do?

Mr. Gadi Mayman: If you think of it like a business, the provincial controller is your accountant. They're your internal accountant. The provincial controller is the one that determines whether you've made money or not. Then you have an auditor that looks at it. In our case, it's the Auditor General. So the provincial controller is the internal accountant, and the Auditor General is your external auditor.

Mr. John Vanthof: So it would seem to be common sense—we've heard from the Auditor General—that we would also want to hear from the provincial controller at the time on this issue, as part of this committee's mandate. Would you agree with that?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. Ms. Martin, on a point of order.

Mrs. Robin Martin: I think we've already discussed that it isn't really up to the witnesses to tell us who we should call to the committee, although they're very knowledgeable. You can ask them what the provincial controller does etc.—that's fair game—but not who should come before committee.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Ms. Martin, for that. I'll let the question go, but if you could phrase it toward advice of who might be of assistance.

Mr. John Vanthof: I'd just like to reiterate, as a statement for the committee, that for this committee to gain a true picture of what happened at that time, it would be advantageous to not only talk to external audit, which is the Auditor General, but internal audit, which is the provincial controller. I will leave it at that, Chair.

During your testimony, you made a few statements that I would like you to expand upon, just so I can get it through my lay head. With the Fair Hydro Plan, the IESO balances the system. It pays the generators and it collects money from the—

Mr. Gadi Mayman: The LDCs, the local distribution companies.

Mr. John Vanthof: Yes. And there's a gap, and that would be the global adjustment.

Mr. Gadi Mayman: Uh—

Mr. John Vanthof: One time you said that it bought the power and it sold the power, but there was a gap.

Mr. Ronald Kwan: If I can go a little bit more, if that's okay with Gadi, the IESO would be settling the market, if you like. The flow of money goes through the IESO. As you said, it does pay the generators. It collects money from consumers—in some cases directly from consumers. If they are tied directly to the grid, it might do that, but smaller consumers are usually customers of a local distribution company or perhaps a retailer, and the IESO would collect the money from those entities.

Through the global adjustment refinancing mechanism, there was a gap that would be created because there would be a portion of the global adjustment that would not be paid for in that year by the eligible consumers, typically residential consumers, small businesses and farms, so there would be a gap that would need to be financed. That's the gap I think you're referring to.

The global adjustment itself is a portion of the electricity bill that covers a portion of the commodity cost of electricity as well as some conservation activities, but the fact of the global adjustment amount—less of it would be collected because of the global adjustment refinancing program.

Mr. John Vanthof: I think I've got it straight in my head now, but we are talking about a gap. At one point, part of this fair hydro smoothing program is that the gap needed to be changed into an asset. The gap was an asset.

Mr. Ronald Kwan: I think that what is the asset for the IESO—I'm not the accountant here; it's probably better to ask an accountant. But my understanding of what the Ontario Fair Hydro Plan Act does is it created a right to recover a certain amount in the future. That's the asset. The gap today is not the asset; the future ability to recover that amount is the asset. That's the regulatory asset that the IESO recorded on its books and then sold to OPG—or the Fair Hydro Trust, I should say.

Mr. John Vanthof: Yes. I'm not an accountant either, but I know that when I used to go to the bank to borrow money when I wanted to buy a cow, I had to have something to back the asset. What backed the fair hydro? Because it was a gap that turned into an asset. Something has to back the asset.

Mr. Gadi Mayman: The legislation was what provided that. The legislation then provided for a clean energy adjustment that would be levied on people's bills in the future that would then be used to repay this.

That, in and of itself, was not enough. To use your bank analogy, the bank would have said, "Yes, that's wonderful, but a future government can change that." What made it financeable is then the provincial protection agreement, which—

Mr. Ronald Kwan: Change-of-law protection.

Mr. Gadi Mayman: Change-of-law protection agreement, sorry. There are so many terms here. What that did is it provided the backstop for the bankers. Think of it now as you've got somebody who you know will have money to pay for your cow if you don't pay for your cow, if I could put it that way.

The Chair (Mr. Prabmeet Singh Sarkaria): Three minutes.

Ms. Catherine Fife: Oh, a farming analogy.

Mr. Gadi Mayman: You talked about going to the bank to get your cow, so I'm trying to—

Mr. John Vanthof: Okay. You use emojis; I'll use cows.

Mr. Gadi Mayman: I try not to use emojis.

Mr. John Vanthof: And I don't know cows anymore.

In essence, the government was still backing the loan, was still backing—they were doing a really convoluted

way around it and they were trying not to show it, but in essence, the government was still backing the loan.

Mr. Gadi Mayman: In a very limited way. That was the negotiation and that's what made Goldman Sachs, RBC and CIBC unhappy, because of the fact that we wouldn't step in there—I don't want to stretch the cow analogy, but we wouldn't step in there and say, "No matter what, bankers, you're getting paid for your cow." What we said was, "Under these two very specific scenarios"—a change of law, so the legislation changes, or the courts determine that it's unconstitutional—"then you'll get paid by us. Otherwise, you still have to collect from the farmer who owns the cow."

1730

Mr. John Vanthof: Okay. So a few times—

Mr. Gadi Mayman: I'm going to stop using that analogy now.

Mr. John Vanthof: Okay.

Ms. Sandy Shaw: You milked it.

Mr. John Vanthof: Yes. A few times, you said that this whole process was like threading a needle, right?

Mr. Gadi Mayman: Yes.

Mr. John Vanthof: Threading a needle through what? If you failed to thread the needle, what would happen? How were you being forced to thread a needle through what?

Mr. Gadi Mayman: If that wasn't successful, then what would have happened is that that \$2 billion or \$2.5 billion a year would have ended up on the deficit. That's the idea, to both lower electricity rates, which was going to happen—that was unalterable; that was going to happen. The part that we were worried about at the OFA and more broadly through the Ministry of Finance and Treasury Board was what happened if any of these various parts of it failed. What was the backstop to it? The backstop was that that was going to come onto the province's deficit, and if the province still wanted to balance the books, if the government still wanted to balance the books, they were going to have to find \$2-billion or \$2.5-billion worth of savings elsewhere. Would the government have the appetite for that? That was the needle that was being threaded.

Mr. John Vanthof: Okay. So basically, given the concerns you expressed, you were being asked by the government almost to do something against your better judgment, to cost the people of Ontario more money.

Mr. Gadi Mayman: "Better judgment" is a loaded term. We provide advice, and it was also part of our advice that they should try to stick with the plan to balance the budget. We were giving them advice that they may have perceived to be somewhat contradictory.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That concludes our time for the opposition.

Mr. John Vanthof: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): For the final 10 minutes, to the government side for Mr. Baber.

Mr. Roman Baber: Mr. Mayman, first of all, thank you for your excellent testimony today. Mr. Kwan, thank you for your testimony as well. To your point earlier, I

think it's safe to suggest that if there's anyone in this room who's not out on a crazy island, that's probably yourself.

Mr. Gadi Mayman: Thank you for that. I hope I'm not alone.

Mr. Roman Baber: Part of this committee's mandate is to come up with some recommendations. At this point, I assume and I believe that the committee will be turning its mind to it. One of the repeated themes that came up through the testimony we've heard thus far is the government's relationship with the Auditor General. Specifically, the Independent Financial Commission of Inquiry recommended that the province rehabilitate its relationship with the Auditor General, and that subsequent governments look for a better working relationship with the Auditor General.

I wanted to ask you, as someone who tenders Ontario's finances to the world, if you perhaps have any specific proposals to reform our relationship with the Auditor General. Then, perhaps, I would follow up with respect to the suggestion and see how you feel about it.

Mr. Gadi Mayman: I think it's fair to say that everybody would like to have both the Auditor General and the government—the people who invest in our bonds would like to see a good relationship between the Auditor General and the province. I think that's really important. I think it's also very important to demonstrate transparency, and maybe that's a lesson that we've learned through this: Sometimes, in order to achieve multiple goals, it becomes easy to go down a path that's less than transparent. I think that those are our objectives that we should set up.

I noted from the IESO's testimony—I wasn't aware of this before, but they now have the Auditor General as their external auditor. I think that having that good working relationship is critically important. I'll leave it at that.

Mr. Roman Baber: I wonder how you feel about potentially giving the Auditor General more of an auditor role. The distinction that comes to mind between the province and a traditional reporting issuer, or even a traditional privately held company—

Ms. Sandy Shaw: Point of order.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Shaw?

Ms. Sandy Shaw: I'm not sure how this relates to the mandate to the committee. It's forward-looking; it's not really related specifically to the mandate of the commission.

The Chair (Mr. Prabmeet Singh Sarkaria): I believe that in the mandate there is a recommendation that it ties to. I can read the recommendation: "Restore a constructive, professional relationship between the government and the Auditor General in a manner that respects the Auditor General's legislated independence." So I think I'll—

Ms. Sandy Shaw: And so in general, but in talking about this current government—that was my point.

The Chair (Mr. Prabmeet Singh Sarkaria): Okay. I'll ask Mr. Baber to tie it to the recommendation that's before us in the report, but I will allow him to continue.

Mr. Roman Baber: Before we were interrupted for what I respectfully submit was no good reason—

Ms. Sandy Shaw: Chair, it's not an interruption.

The Chair (Mr. Prabmeet Singh Sarkaria): It's a point of order. Thank you.

Continue, Mr. Baber.

Mr. Roman Baber: Chair, I would like the time that was spent on this objection added to my time, please.

I believe that, at the end of the day—

The Chair (Mr. Prabmeet Singh Sarkaria): I will let you continue.

Mr. Roman Baber:—I would say this to the members opposite: We're trying to arrive at something constructive.

The Chair (Mr. Prabmeet Singh Sarkaria): Points of order are allowed, Mr. Baber, so I'll let you continue, please.

Mrs. Robin Martin: On a point of order—

The Chair (Mr. Prabmeet Singh Sarkaria): Point of order: Ms. Martin.

Mrs. Robin Martin: Thank you. The member opposite who raised this objection has asked the very same question in every testimony to date, so I also think that that was an inappropriate point of order.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Ms. Martin. I'll allow Mr. Baber to continue.

Mr. Roman Baber: In the spirit of looking forward and perhaps trying to correct, be it our government or any future government, let's go back to something meaningful.

Specifically: Mr. Mayman, in terms of looking at our relationship with the Auditor General, I'm wondering if it makes sense to allow the Auditor General a more traditional auditor role. As opposed to the province issuing a consolidated financial statement and subsequently the Auditor General opining on such a statement, would you recommend something to the effect of the Auditor General issuing an opinion on the consolidated financial statements contemporaneously, as they come out, thereby allowing for greater co-operation between the Auditor General and the province in the preparation of the financial statements?

Mr. Gadi Mayman: I think that anything that allows for greater co-operation between the Auditor General and the province is a good thing. I think that anything that facilitates getting the statements done as expeditiously and, obviously, as correctly as possible is good. I don't know, in that specific one—I thought I was going to have to say this earlier in the testimony, but I'm going to fall back on, "I'm not an accountant." I think that this is something that would be a discussion between the Treasury Board, the provincial controller and the Auditor General.

Mr. Roman Baber: Mr. Mayman, one of the recommendations that came out from the Independent Financial Commission of Inquiry is that the province set a long-term goal of restoring the province's triple-A credit rating. Is that something you would agree with?

Mr. Gadi Mayman: Well, it's a very good aspirational goal. The reality is that—I'll go back to the debt-to-GDP ratio. Our debt-to-GDP ratio is at 40.5%. BC is at 15%. BC is triple-A. That 25% gap is quite considerable. It's good to have the aspirational goal of trying to get to the top, but the same way as I might tell one of the kids that

I'd like to see them get 100%, I don't necessarily expect them to get there.

Mr. Roman Baber: How would you propose that the province go above that goal?

Mr. Gadi Mayman: I think the first step is to balance the budget and to start moving towards reducing that debt-to-GDP ratio, to getting to the point where the financial indicators that the Auditor General talks about in chapter 2 of her annual report move in the right direction.

The Chair (Mr. Prabmeet Singh Sarkaria): Three minutes.

Mr. Roman Baber: You go out there and you tender our bonds around the world to try and raise money to do what the province wants to do. I'm wondering: Given our debt-to-GDP ratio and given that interest rates are tightening, could you please give us an opinion as to the trajectory of Ontario's bonds maybe in the near term or medium term?

Mr. Gadi Mayman: Our bonds are well received, both domestically, where we do the bulk of our borrowing, and internationally. The province has a very strong reputation. We're known as a province that is attractive to investors.

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What we try to do is to make ourselves even more attractive. There are things that we can do at the OFA in the way that we borrow money, in the mechanisms we use and the investor relations that we do going out to meet with investors, even through our website, where we try to be as transparent as possible.

There are other things where we are dependent on where the deficit is and what the debt load is. So it would be helpful to us—not that you would do it because it's exclusively helpful for us, but having lower deficits and managing the debt would be helpful to this.

Mr. Roman Baber: Thank you.

Mr. Romano?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano, I'm going to end in 30 seconds.

Mr. Ross Romano: Last year, when the Auditor General released her special report, and throughout that process that followed with the Liberal government, there was clearly a strained relationship, as my friend is trying to work towards—what do we do to fix it? That strained relationship obviously came from the Auditor General's report and the dispute over this whole Fair Hydro Plan, and other issues.

Throughout this process, we kept on hearing—throughout that time—the Liberal government talking about how this was just an accounting dispute. We kept on hearing that over and over again. Would you agree that term “accounting dispute” was just a form of messaging being used by the government?

Mr. Gadi Mayman: Again, my expertise is on financing bonds and finding the cheapest way to do that. Messaging and communications is not where I would say that my strength lies, so I would leave that to the—

Mr. Ross Romano: Is it fair to say that what happened in terms of this dispute with the Auditor General and the

Fair Hydro Plan—clearly the government didn't want people in Ontario to know that the whole purpose was—

The Chair (Mr. Prabmeet Singh Sarkaria): Imputing motive—and there are two seconds left.

Mr. Ross Romano: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Romano. That will conclude our time for questioning.

Mrs. Robin Martin: Can I just raise a point of order?

The Chair (Mr. Prabmeet Singh Sarkaria): A point of order, Ms. Martin.

Mrs. Robin Martin: Just so we can understand the standing orders on this “imputing motive” issue, because it keeps coming up, my understanding is that we're not allowed to impute motive about other members of the committee etc.

The Chair (Mr. Prabmeet Singh Sarkaria): Of the House.

Mrs. Robin Martin: And of the House—but when you're talking about a witness's testimony about their experiences etc., if they want to talk about the motive, that is not the same thing as imputing motive about a member of the House.

The Chair (Mr. Prabmeet Singh Sarkaria): It's imputing motive in the sense of a decision that has been taken for a certain purpose of—I don't know if I should—

Mrs. Robin Martin: The rule is not that you don't get to discuss motive at all; the rule is that you can't besmirch the reputation of a member of the House.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you for the point of order. I do take that, but I do believe that any time there has been an imputing motive raised by me, it's directed towards or falls around motives attributed to statements being made.

Mrs. Robin Martin: I would ask you to review this rule because I don't think that we're using it in the limited sense that it's meant. Anyway, for future reference. It just keeps coming up every time.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Ms. Martin.

Mr. Baber?

Mr. Roman Baber: Chair, along the same point, it would also be helpful to clarify that the rule only seeks to extend to members of the House, so it could potentially not extend to ministry staff or political staff. That is something that would also be very helpful.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Baber.

I would like to take an opportunity to thank our panel from the Ontario Financing Authority. We really appreciate your time and your participation at the panel, so thank you very much, Mr. Mayman and Mr. Kwan. You are free to leave.

COMMITTEE BUSINESS

The Chair (Mr. Prabmeet Singh Sarkaria): Before we adjourn, just a discussion on our schedule for the committee for next week. On Monday, we do have one

witness, Ed Clark, and the time will be at 3 p.m. because of witness availability.

We have one more witness to schedule—

Mr. Roman Baber: Chair, could we maybe just go off-record for a minute just to let the witnesses—

The Chair (Mr. Prabmeet Singh Sarkaria): Okay, so what we'll do is a quick five-minute recess, if the committee is agreeable.

Mrs. Robin Martin: We don't need it.

The Chair (Mr. Prabmeet Singh Sarkaria): Or a two-minute recess, if the committee is agreeable. We will resume at 5:48. Thank you.

The committee recessed from 1745 to 1746.

The Chair (Mr. Prabmeet Singh Sarkaria): Committee is now back in session. Just before we adjourn, I would like to update the committee on our schedule. We do have one witness scheduled for next Monday, Ed Clark. Start time will be at 3 p.m. because of availability issues.

We have one more witness to schedule, Bert Clark, who is not available next week, but we are trying to confirm his attendance.

I think, as a committee, we need to decide if we want to hear from more witnesses and who we would like to call or if we would like to go into report-writing. We can also take this to subcommittee if that's what we want, but then we would have to come back and pass the motion or get further clarification from the committee.

Mr. Romano?

Mr. Ross Romano: Thank you, Mr. Chair. We just learned today that Mr. Bert Clark was not going to be available, as you alluded to shortly before, so my sense is that now, with the Wednesday no longer being booked up on the basis of the witnesses that we anticipated having—

The Chair (Mr. Prabmeet Singh Sarkaria): Tuesday.

Mr. Ross Romano: Tuesday, sorry. Tuesday. My apologies. Right now, at this time, I think it's something that, as a subcommittee, we will have to canvass. Perhaps we could schedule something for tomorrow or the next day for that discussion to occur.

Hopefully, my friends on the other side of the room can give some thought with their staff and determine if they have any witnesses that they wish to bring forward. I would just encourage them in terms of thinking of what the goal would be out of those witnesses. We will do the same, and then we can have a subcommittee meeting to discuss what witnesses, if any, we want to continue with in this committee.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. Ms. Fife?

Ms. Catherine Fife: Thank you very much, Chair. We think that this conversation should happen at the subcommittee level as well. We did put forward some names for future witnesses. But if the subcommittee can meet this week, then we can discuss this on Monday when Mr. Clark is before the committee.

The Chair (Mr. Prabmeet Singh Sarkaria): Perfect. Committee is agreeable?

Mr. Ross Romano: That seems very reasonable, yes.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano?

Mr. Ross Romano: I was just saying that seems reasonable and appropriate. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Okay.

Thank you very much. Committee is now adjourned until Monday at 3 p.m.

The committee adjourned at 1748.

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