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Mercredi 17 avril 2019

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 17 April 2019

Mercredi 17 avril 2019

The committee met at 1230 in room 151, following a closed session.

SPECIAL REPORT, AUDITOR GENERAL: THE FAIR HYDRO PLAN

The Chair (Ms. Catherine Fife): Good afternoon, everyone. I'd like to welcome you to the public accounts committee. My name is Catherine Fife. I am the Chair of this committee.

We are here today to begin consideration of The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money, which was a 2017 special report from the Office of the Auditor General.

We are joined by officials from various ministries and agencies. Thank you all for being here today to answer the committee's questions.

I would invite you to each introduce yourselves for Hansard before you begin speaking. Even if somebody comes up to the table, we need their name on the record.

You will have 20 minutes, collectively, for an opening presentation to the committee. We will then move into the question-and-answer portion of the meeting, where we will rotate back and forth between the government and the official opposition caucuses in 20-minute intervals. The opposition side will be starting that cycle today.

Thank you for being here, and please introduce yourselves.

Ms. Karen Hughes: Thank you, Chair. My name is Karen Hughes, and I am the interim Deputy Minister of the Treasury Board Secretariat.

Joining me from Treasury Board Secretariat is Gary Wuschnakowski, who, for today, is the acting assistant deputy minister in the Ontario provincial controller division, or, as we refer to it, the OPCD.

In addition to TBS, we have officials from several ministries and agencies here to answer questions from the committee members, so I'm just going to take a minute to introduce folks.

From the Ministry of Health and Long-Term Care, we have Deputy Minister Helen Angus. Deputy Angus was formerly the Deputy Minister of the Treasury Board Secretariat.

From the Ministry of the Environment, Conservation and Parks, we have Deputy Minister Serge Imbrogno. Deputy Imbrogno is the former Deputy Minister of Energy.

From the Ministry of Energy, Northern Development and Mines, we have Assistant Deputy Minister Steen Hume, who is seated next to me.

From the Ministry of Finance, we have Deputy Minister Greg Orencsak, hidden back over there.

From Ontario Power Generation, we have Chief Executive Officer Ken Hartwick, and Chief Controller John Mauti, back over there.

From the Independent Electricity System Operator, we have Chief Executive Officer Peter Gregg, and Vice-President of Finance Barbara Anderson, in the back.

Finally, from the Ontario Financing Authority, we have Chief Executive Officer Gadi Mayman.

On behalf of others here today, please allow me to thank committee members for the opportunity to speak to the Auditor General's special report on The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.

We recognize the important role the committee plays in both ensuring legislative oversight and providing guidance to the government. As always, we will do our best to answer any questions the committee may have on this topic.

As I did two weeks ago, I'd like to take this moment to speak specifically about the role of ministry officials who appear before you today.

As you are aware, every member of the public service takes an oath of office to protect the confidentiality of government records. Many of the matters being discussed today will touch on that oath of office as it relates to the previous government's decisions. Having said that, many of these issues have already been publicly disclosed as a result of proceedings of the Select Committee on Financial Transparency and through reports of the Auditor General, the Financial Accountability Officer and the Independent Financial Commission of Inquiry. As a result, it is appropriate for us to speak openly with you today, even if the information would otherwise be confidential. The government does not, of course, waive that privilege as it relates to any matters outside of the committee.

Our role today is to support and provide impartial advice to the government of the day moving forward. As public servants, we carry out decisions and policies of the government, and we work to ensure that activities are conducted in an open, fair and transparent manner.

Turning now to why we are here today, the Auditor General's special report had two recommendations: First, record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the province's budgets and consolidated financial statements; second, use a financing structure to fund the rate reduction that is least costly for Ontarians. On both of these recommendations, I'm happy to report to the committee that the province has made considerable progress.

From a Treasury Board Secretariat viewpoint, I can only speak to the first recommendation; namely, the accounting portion of the plan and how it has changed since the release of the special report. Let me first state that I'm not an accountant and therefore not qualified to interpret accounting standards. That is why we have professionally accredited accounting staff within the Treasury Board Secretariat to ensure the province is properly following Public Sector Accounting Standards, or PSAS, as determined by the Public Sector Accounting Board.

The 2017-18 public accounts were prepared in accordance with PSAS and received an unqualified or clean audit opinion from the Auditor General.

As members of the committee will recall, when Treasury Board Secretariat was before the committee two weeks ago, the auditor confirmed that the 2017-18 public accounts properly records the Ontario Fair Hydro Plan.

I will tell you about the accounting portion of the plan and how we got here. As I stated, the province uses Canadian Public Sector Accounting Standards in the preparation of public accounts. The government uses the audited information received by the controlled organizations as the basis of preparing the consolidated financial statements in the public accounts.

In March 2017, the Independent Electricity System Operator board approved a change to the accounting in their 2016 financial statements to apply rate-regulated accounting in their financial statements, which were consolidated into the public accounts. On these statements, they received an unqualified or clean audit opinion by their auditors.

Under the other matters in the Auditor General's qualified opinion on the 2016-17 public accounts, the Auditor General stated that the province's books may become materially misstated in future periods based on the use of rate-regulated accounting by the IESO. The Auditor General expanded on this in her special report, stating that the decision by the board of the IESO is a misapplication of PSAB for three reasons:

—The reporting framework of PSAS does not permit the use of rate-regulated standards, which are taken from the US accounting standards.

—The IESO is not a regulated entity.

—The legislation, the Ontario Fair Hydro Plan Act, was driving the accounting to recognize the asset.

We know these are complex accounting issues, and differing opinions on the interpretation of PSAS standards are not limited to this situation.

Shortly after being elected, the new government sought to resolve these accounting issues and struck the Independent Financial Commission of Inquiry. The commission had a mandate to perform a retrospective assessment of government accounting practices. In the process, it was to provide an opinion on the province's budgetary position as compared to the position presented in the 2018 budget in order to establish the baseline for future fiscal planning.

The commissioners made 14 separate recommendations to the province, one of which was that the province should adopt the Auditor General's proposed accounting treatment for the global adjustment refinancing which was a major component of the Fair Hydro Plan.

The government accepted the commission's recommendations and made a policy decision resulting in an updated accounting treatment for the liability of the Fair Hydro Plan. As you may know, this is captured in the 2017-18 public accounts as a $1.8-billion expense in the consolidated financial statements related to the global adjustment refinancing of the Fair Hydro Plan.

A little under $1.7 billion was recognized within the former Ministry of Energy as a transfer payment expense to cover the amounts financed by the Fair Hydro Trust, and the remaining $150 million reclassified to expense from the reporting in the IESO. The government also decided in early September 2018 to seek a future legislative change which would, if passed, affect the amount of future recovery from ratepayers of the global adjustment, which was also a significant factor to the change in the reporting in the 2017-18 public accounts. As you know, that legislation is currently before the House.

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As the members can see, the province has taken a number of steps to address the auditor's recommendations in the special report. We believe that these steps were instrumental in the province receiving an unqualified, or clean, audit opinion on the 2017-18 public accounts. Going forward, the province will continue to use PSAS, as set by the Public Sector Accounting Board, in the preparation of the public accounts. We will also continue to prioritize and strengthen the relationship with the Office of the Auditor General to ensure she has access to the information she needs to perform her role as an independent officer of the Legislature. I want to thank the Auditor General and the commission for their recommendations.

As I mentioned to the committee on April 3, we take our responsibility at the Treasury Board Secretariat to provide a complete and transparent account of the province's finances very seriously. We know how important this responsibility is to the government, the Legislature and the people of Ontario. Again, I want to thank the Auditor General and her staff for their recommendations in the special report. I also want to thank the committee members of the Standing Committee on Public Accounts for inviting us here today to speak to the progress the government has made to address those recommendations.

We look forward to answering your questions. I'm going to hand it over to my colleague Steen Hume to speak to their role in the Fair Hydro Plan.

Mr. Steen Hume: Thank you, Deputy. Good afternoon. My name is Steen Hume. I am the assistant deputy minister of energy supply policy with the energy, northern development and mines ministry. I would like to speak today about how energy, northern development and mines is responding to the Auditor General's report.

On March 21 of this year, Bill 87, the Fixing the Hydro Mess Act, was introduced. It is now at second reading and has been referred to the Standing Committee on General Government. If passed, Bill 87 would support transparent accounting for the cost of providing a reduction on electricity bills. It would also change how the reduction is presented on electricity bills, making more evident the true cost of supply and the amount of relief being provided. The legislation, if passed, would enable the wind-down of the current global adjustment refinancing framework, including ending the reallocation of costs between present and future electricity consumers.

Although Ontario Power Generation would continue to act as the financial service manager of the debt obligations already incurred by the Fair Hydro Trust, the province would be responsible for servicing all debt held by the trust when it comes due. The legislation recognizes the validity of the debt held by the Fair Hydro Trust to ensure that investors are repaid in a manner which is highly consistent with the original obligations under the act. While the Fair Hydro Trust has not issued any new debt post-April 2018, the legislation, if passed, would also prohibit any new debt to be issued or incurred by the Fair Hydro Trust. We are currently working with Ontario Power Generation on these administrative changes.

Bill 87, if passed, would also enable us to replace the current global adjustment refinancing framework with a new on-bill rebate, effective November 1, 2019, through an expansion to the current 8% Ontario rebate for electricity consumers. The amendment would combine the 8% with the replacement of the current GA refinancing framework to provide a single line item rebate on electricity bills. The percentage of the expanded rebate would be set by regulation prior to November 1, 2019, with the view of achieving the government's rate reduction goals. What this means for consumers is that household electricity bills will now show the true cost of power on the electricity line and clearly show the reduction through the rebate line item. We are working with local distribution companies to amend billing systems to reflect this new approach. In addition, the cost of the new on-bill rebate will be appropriately accounted for on the province's provincial accounts as the 8% rebate currently is accounted for.

These changes are being made with the expectation to bring the government in line with the recommendations of the Auditor General and the Independent Financial Commission of Inquiry. By taking these actions, the ministry is providing rate mitigation in a manner that is more transparent and accountable. Thank you.

The Chair (Ms. Catherine Fife): Thank you very much, Mr. Hume. This first set of questions will go to the official opposition. MPP Morrison.

Ms. Suze Morrison: Thank you for your presentation.

For those of us who aren't accountants, I want to reiterate some of the things that we continue to hear—and especially for folks who might be watching at home—about what the actual issue is here.

We have a previous government that, in an attempt to reduce hydro rates that people were paying on their bills, orchestrated a borrowing scheme where they would borrow an amount of money to pay down people's hydro bills directly on the bill, and orchestrated an accounting framework in which all of that borrowing was kept off the books.

I've been discussing this and trying to understand, from an accounting perspective, what this means. For example, if I made $50,000 a year and my total household expenditure for my rent and my food and everything was $60,000 a year, and I have a $10,000-a-year shortfall, under this scheme—the way I understand it is that that financial shortfall there was then accounted for as an asset and then borrowed against as an asset—so let's say I went to the bank and said, "Hey, bank, I'm spending $10,000 a year more than I'm bringing in in income, and I want to borrow against that, and I'm using that financial shortfall to borrow for that money."

What I would like to understand is how exactly that shortfall became identified as an asset and how that was allowed to happen.

Ms. Karen Hughes: We'll call on Gary Wuschnakowski to explain that from an accounting perspective.

The Chair (Ms. Catherine Fife): Welcome, Gary. Good luck explaining that.

Ms. Suze Morrison: And please remember that I'm not an accountant.

Mr. Gary Wuschnakowski: My name is Gary Wuschnakowski. I'm an assistant deputy minister with the Office of the Provincial Controller division at Treasury Board Secretariat.

If I understand your question correctly, it relates to rate-regulated accounting and the definition of rate-regulated accounting.

Ms. Suze Morrison: Yes.

Mr. Gary Wuschnakowski: There has been a lot said about rate-regulated accounting, but let me speak to that issue and why it was a concern identified for public accounts in the auditor's special report.

Rate-regulated accounting is an accounting concept which allows a regulated entity to recognize an asset for an expenditure made today, where it has been approved or is expected to be approved, to be recovered through rates at a later date.

An example where a regulated enterprise incurs costs to repair damage—I'll give you a bit of an example of where that could be. It's where there's potentially a storm or damage to an asset. An example would be where a regulated enterprise incurs costs to repair that damage caused by the storm, and if the regulator approves recovery of those costs through rates over some future period of time, or is expected to do so, that allows the regulated entity to create a new asset that offsets the reduction in the damaged asset. The enterprise then is permitted to recognize that asset due to the additional revenue that will result from including the cost in the allowable or recoverable costs for rate-making purposes.

Rate-regulated accounting is still used in the accounting for Ontario Power Generation and Ontario Hydro. These organizations are classified as government business enterprises under Public Sector Accounting Standards, which are brought into the consolidated financial statements using IFRS, or the international financial reporting standards. That standard explicitly allows regulated entities to use rate-regulated accounting under an interim standard while the international accounting body continues to work to land a final standard on the topic.

The Auditor General in the province is in agreement with the accounting for government business enterprises.

The report, in chapter 2, also described how IESO, which applies public sector standards in its reporting framework, and these rate-regulated provisions, which are actually written into US accounting standards, are not applicable to government organizations, which are different than government business enterprises, such as Ontario Hydro and OPG.

I hope that answers your question.

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The Chair (Ms. Catherine Fife): I just want to say that the Auditor General would like to comment on that question.

Ms. Bonnie Lysyk: I'll just mention that in the scenario you provided, that bottom line would not be normally considered an asset. In the case that we're dealing with at hand, the difference was a loss that was created by the amount collected from ratepayers and the amount paid to generators. More had to be paid to generators than was collected, so there is a loss that was incurred. That loss was never a rate-regulated asset. There was no hearing; there was nothing to call it a rate-regulated asset. So I guess I would say that the discussion about defining a rate-regulated asset isn't applicable to that scenario.

The simple answer is that, as accountants using our standards, we would never have considered a difference like that a rate-regulated asset. The difference in a utility is, when they build big assets that will generate power for years and years, the thought is that the benefit of those assets will extend into the future, so rate regulators allow those costs to be moved into the future.

But the scenario that we dealt with on the Fair Hydro Plan is very different from a true rate-regulated asset that is determined after a public hearing, where a rate regulator rules that there is an amount that can be deferred and billed to consumers in the future.

I just want to say that, in your scenario, that would be not a borrowing asset.

Ms. Suze Morrison: Yes, absolutely. I'm just trying to get at something that's really quite technical in a way that I can go home and explain to my constituents, who aren't accountants and who don't understand what rate-regulated accounting is.

At the end of the day, we have a financial framework that allowed for a shortfall in funding to be attributed, on the government books, as an asset. I'm just trying to better understand how that came about, and who exactly thought this was a good idea.

I guess my follow-up question would be if you could speak to the culture in the OPS, where we had an absence of public servants standing up and saying, "Hey, this is wrong," to the point that we had to have the auditor come in and go through this whole process and issue qualified audit reports of the government—and what steps you're taking in the respective ministries involved, to ensure that there is a culture within the public service where public servants, when they identify something that's clearly not right, are comfortable and supported to be standing up and saying, "Hey, this isn't right. We shouldn't be doing this."

Mr. Gary Wuschnakowski: I certainly can speak to the processes and approach that we've put in place to build a relationship, and rebuild the relationship, with the Office of the Auditor General.

Currently, the OPCD—and I'll use that acronym a number of times—we've created a monthly process to meet with staff. Professional staff within the Office of the Provincial Controller meet on a monthly basis with professional staff from the Office of the Auditor General, where we will speak to a variety of issues that have come forward to the Treasury Board Secretariat and that the Auditor General has been made aware of.

In addition, we've created a collaborative space where we share information jointly—technical documents and files—and manage those conversations.

When we're seeking advice and input or opinions from the Auditor General, we in the provincial controller's office prepare technical papers that we share with the Auditor General. Staff have conversations regarding those issues, and then seek a formal opinion from the Auditor General.

I would add that the process that we've put in place over the past six months has been working very well in terms of collaborating with staff from the Auditor General, sharing that information with them as well and coming to consistent conclusions.

I see the auditor is shaking her head in agreement with that statement.

There are a number of other—

Ms. Karen Hughes: I just want to add that I think that has been really good in helping to inform decision-makers as well in terms of being able to bring that information earlier into the process. Whereas, in the past, I think it was a little bit more "after decisions" as opposed to being earlier and upfront.

Sorry. Back to you, Gary.

Mr. Gary Wuschnakowski: Yes, and I think that is a critical piece, and that we're working very closely prior to decisions being made in terms of opinions that are raised by the professional staff within the provincial controller's office in consultations.

There is another aspect to building that culture, as you just spoke to. One of the key recommendations of the independent commission of inquiry was that—and I'm just reading the statement here: "Require that the Auditor General is given advance notification and is asked for comment when a ministry or an agency consolidated in the financial statements of the province proposes to engage a private sector firm to provide accounting advice. In addition, require that the province approve, after consultation with the Auditor General, the retention of the same private sector firm for both accounting advice and auditing services."

As I mentioned two weeks prior to this committee hearing, the Office of the Provincial Controller has put in an approach that will require ministries and agencies to provide that advance notification to our office, that we will then share with the Auditor General, in terms of the hiring of those professional services.

In addition, as part of our annual assurance process in support of attestations to the financial statements or to the public accounts, we will require ministries to attest to the fact that they have provided that information, or provided assurance in that information, and sharing that with us at Treasury Board Secretariat, the provincial controller's office and with the Auditor General.

So there are a number of items, processes or applications that we've put in place across this very large organization to ensure, coming back to your original request, that we're bringing forward the appropriate information at the appropriate time, engaging and respecting the independence of the legislative officer and the Auditor General.

Ms. Suze Morrison: Thank you.

The Chair (Ms. Catherine Fife): Did that answer your question?

Ms. Suze Morrison: Yes.

The Chair (Ms. Catherine Fife): Okay. MPP Vanthof?

Mr. John Vanthof: Thank you very much for coming. It's kind of like Groundhog Day; we keep seeing each other over and over and over again.

I'd just like to clarify a couple of things: PSAS—it's a long one—Public Sector Accounting Standards. I'm assuming that, currently, you are following Public Sector Accounting Standards. Is it your opinion that during the Fair Hydro Plan process you were also following public standard accounting practices, and if so, why did we have to change the practice completely?

When you borrow money to subsidize anything, that money should go on the books of who's borrowing the money. That's pretty simple, right—even regardless of what we use for acronyms. From our perspective, we don't understand how you're now using public standard accounting practices and you were using public standard accounting practices under the Fair Hydro Plan. They're totally different yet they're both public standard accounting practices. That doesn't work.

And in my supplementary, I can recall while we were debating the Fair Hydro Plan, repeatedly ministers would say, "Well, we've got the opinions of the three big"—and they kept naming the firms. But they were obviously not agreeing with the Auditor General. So I want to know, and I just heard an assurance—actually, I don't want the people of Ontario to end up in the same issue again, where the government of the day—the past government, the future government or present government; I don't care—starts saying, "We have opinions, but the Auditor General is wrong on this one." I don't understand. If we have public sector accounting practices—what you're following now, and what you were following under the previous government. In the previous government, why were they, if the Auditor General was saying they weren't public sector accounting—at what point did it switch? That is, for a lot of people—we need to trust the accounting.

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If you're following the rules, how can you have two different sets of rules? Because that's what happened here. We're operating under two different sets of rules. I think that now the rules are that we see the debt on the government's books; but before, quite simply, we didn't. That doesn't follow any kind of accounting practice, in our opinion. We can do the graphs, but how can you have two totally different sets of accounting policies that you feel both meet public accounting standards?

Mr. Gary Wuschnakowski: I would state that the province does prepare, and is committed to preparing, its financial statements in accord with generally accepted accounting principles in order to provide financial reports that support transparency and accountability in reporting to the public and the Legislature.

The commitment to use Public Sector Accounting Board standards is reaffirmed each year in a signed statement as part of the public accounts, and is published as part of the public accounts. I would note that the public accounts of 2017-18—

The Chair (Ms. Catherine Fife): Mr. Wuschnakowski, can you just speak up a little bit, or move closer to your mike?

Mr. Gary Wuschnakowski: Oh, sorry. I'm sitting back—

The Chair (Ms. Catherine Fife): You actually were getting lower and lower and lower. Thank you.

Mr. Gary Wuschnakowski: People tell me I have a really low voice.

I would state that the 2017-18 public accounts did incorporate the impacts of the Fair Hydro Plan and that you would have seen the $1.8 billion reflected in the expenditures of the province associated with the impact of the Fair Hydro Plan.

Mr. John Vanthof: But if there had not been a change in government, would it—oh, you can't answer that.

In your opinion, is it a generally accepted accounting principle for an entity to borrow money to subsidize something and then try to avoid having the entity borrowing the money—to try and keep the money off of the ledgers of that entity and put it onto another entity? Is that a generally accepted accounting principle?

Mr. Gary Wuschnakowski: I would perhaps call the IESO to speak to—

Ms. Karen Hughes: Yes, I think we relied, in this case, on some of the accounting advice that was provided by the independent—the Office of the Provincial Controller, I think, relies on advice from where it's being accounted for by an external corporation—in this case, the Independent

Electricity System Operator. We relied on some of that accounting advice.

I would say—and I think we talked about this before—that all the way along, the Office of the Provincial Controller division had concerns about the accounting in this piece. That was raised, and I think we talked about that in the fall.

Mr. John Vanthof: If I could: If the Office of the Provincial Controller had concerns, and we did talk about this in previous hearings, that there comes a point when you raise concerns to a government, and the government makes a decision—which is their right—and at that point, despite your concerns, you move ahead.

The Chair (Ms. Catherine Fife): One minute.

Mr. John Vanthof: Is there any method that if you feel that those concerns are that dire—is there any method under the past government or the current government to make those concerns known without severely hurting your career?

Interjections.

Mr. John Vanthof: No, that was one of the issues. I don't expect you to jeopardize your career.

Mr. Steen Hume: Maybe I'll just take a stab at that. As some of you who are familiar with the standing committee on the fair hydro—former cabinet secretary Steve Orsini appeared and highlighted and tabled a couple of documents which articulated in fairly stark colours what the public service advice was with respect to implementation of Fair Hydro. There were concerns noted about the accounting treatment, there were—

The Chair (Ms. Catherine Fife): Thank you. We'll probably connect back to that, so hold that thought.

I'll go right now to MPP Miller on the government side.

Mr. Norman Miller: Just kind of following up on the same topic, I have a question for Mr. Gregg at the IESO. Can you come up, please?

I think it's clear that the past government went to great lengths in an attempt to keep the costs of the Fair Hydro Plan off the books of Ontario—through what was being asked by the opposition about rate-regulated accounting. We know that in the past the Auditor General expressed concerns about the IESO's use of rate-regulated accounting and whether the agency was operating in accordance with Canadian Public Sector Accounting Standards. I know that there have been changes to this approach, so I was hoping you could explain to committee members what actions the IESO has taken since the Auditor General's 2017 special report, and what accounting and audit practices you have in place now, hopefully, to fix that situation.

Mr. Peter Gregg: I'm happy to do that. My name is Peter Gregg. I'm the president and CEO of the Independent Electricity System Operator. Good afternoon. Thank you for the question.

I guess how I would answer that question is to say that a lot has changed over the last year, much of that thanks to the input and advice of the Auditor General and her office. We participated in hearings here. We also participated in the Independent Financial Commission of Inquiry and also were present to appear before the committee of the House that looked at Fair Hydro, and some key decisions have been made along the way.

I would state that the government that was elected last year made a key decision to fund the ongoing Fair Hydro Plan from the tax base rather than from ratepayers. That was a critical decision for us. Any relationship to a future ratepayer paying for that deficit that results between what ratepayers are paying and what is owed to generators now gets paid from the tax base. When we looked at that and took the advice of the Auditor General, we made a decision to move away from rate-regulated accounting, so we no longer apply that. That was a decision made in September of last year.

We then further made the decision to ask the Auditor General to come in and do our year-end financials—the audit—for us for 2018. I'm pleased to report that we got a clean audit opinion from the Auditor General's office and received some other advice, too, around how we deal with the discount rate for our pension and other post-employment benefits and have taken that advice as well. So there have been several positive changes.

Mr. Norman Miller: Auditor, do you have anything to add to that comment?

Ms. Bonnie Lysyk: No. I would say that is the case. My team audited at IESO this past year, and IESO did remove market accounts off their statements; reversed the rate-regulated accounting that was there for two years; and addressed the pension discount rate that we had highlighted. So we were able to issue a clean opinion, and the changes were positive.

Mr. Norman Miller: Okay, thank you. I'll pass it over to MPP Surma.

The Chair (Ms. Catherine Fife): MPP Surma.

Miss Kinga Surma: Hello. My question is for the Ministry of Finance.

The Chair (Ms. Catherine Fife): Welcome back.

Mr. Greg Orencsak: It's good to be here.

The Chair (Ms. Catherine Fife): Please identify yourself.

Mr. Greg Orencsak: I'm Greg Orencsak, Deputy Minister of Finance.

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Miss Kinga Surma: Welcome. We know that there were numerous problems with the Fair Hydro Plan borrowing scheme. It hid the true costs of borrowing from ratepayers. It cost more money than it would have if the province had borrowed the money at its usual preferred rate. At the time, the Financial Accountability Officer estimated that the method of borrowing could add up to $4 billion to the lifetime cost of the scheme. Could you please explain to us how replacing the Fair Hydro Trust approach with a more traditional means of borrowing puts us in a better financial position moving forward?

Mr. Greg Orencsak: Sure, I'd be pleased to do that. I'm just going to ask Gadi Mayman, who is the CEO of the Ontario Financing Authority, to join me at the table and expand on my answer.

I think the important precursor to Gadi is that, with the 2017-18 public accounts, and in terms of the going-forward plan that some of my colleagues have described, that borrowing is taken back onto the government's books, so it has the benefit of being consistent with the Auditor General's advice but also very transparent in terms of the underlying costs of the program.

I'm just going to ask Gadi Mayman, who is the CEO of the Ontario Financing Authority, to speak about the specific borrowing requirements and borrowing costs, given his expertise with the capital markets.

Mr. Gadi Mayman: Hi. I'm Gadi Mayman. I'm the chief executive officer of the Ontario Financing Authority.

The Financial Accountability Officer, in a report that his office put out, had estimated that if the province borrowed—rather than the borrowing to be done through the Fair Hydro Trust—the savings over the life of the program would be in the neighbourhood of $4 billion.

As I had testified to the select committee—and I believe the former CEO of Ontario Power Generation also testified at the same time—our internal estimates were still very large, but smaller than that. They were somewhere in the neighbourhood of just over $2 billion. The estimates of what the cost differential would be were based on the assumed borrowing profile going forward through the program—this was to be a 30-year program—and what the assumed interest rates were going to be.

In fact, there were only two debt issuances that were done under the Fair Hydro Trust. Both of those were issued in the neighbourhood of about 40 basis points, or 40 hundredths of a per cent—0.4 percentage points higher in cost than what the province's cost of borrowing would be. When the FAO did their estimate, they had assumed a differential of almost a full percentage point. So that was the reason for the difference in the calculation between what we thought the extra cost would be versus what the FAO's would be. In any case, the cost differential was substantial.

With the changes that were made in September 2018, when the government made the decision, following the report of the independent financial commission on how electricity rates should be subsidized—when the government made the decision to replace GA refinancing and include the cost of electricity rate mitigation in the tax base rather than through this structure, all of that disappeared. The only thing that's left is the debt that is outstanding. The two issues that were done—they will continue to be outstanding in the markets. The debtholders, the people who invested in that debt, will continue to be paid, and they will continue to be paid at the rate that they purchased the debt at, which is in the neighbourhood of 40 basis points higher than what our cost would have been.

So the difference is not unsubstantial, but it's, in order of magnitude, lower than what the cost would have been had the program continued.

Just to put that into perspective: Of the senior debt that is outstanding—there is $900 million of senior debt that's outstanding. At 40 basis points, that adds an extra $3.6 million a year in extra interest costs that would not have been incurred had the government borrowed in its own name right from the beginning, and that $3.6 million will continue every year for a 15-year period. The first debt issuance matures in 2033, and then there is still $400 million that will remain outstanding for an additional five years, to 2038. On that $400 million for those last five years, that would be about $1.6 million a year in extra interest that we will be paying.

The Chair (Ms. Catherine Fife): MPP Surma.

Miss Kinga Surma: Auditor General, is there anything you want to add to this?

Ms. Bonnie Lysyk: I could add that, in terms of the original estimate of $4 billion that was based on certain assumptions that were, I think, at the time, assumptions that OFA also had, after looking at this closer, and as things change, the extent of that amount has gone down. I think that the action taken is a good one in that the interest costs savings, no matter whether it's $5 million or $50 million, are still a savings to Ontarians.

Miss Kinga Surma: Okay, thank you. A number of you were invited here today because of your role in developing and implementing the Fair Hydro Plan scheme. We know from the Auditor General's work that this scheme was costly and used unorthodox accounting practices. We also heard your testimony to the Select Committee on Financial Transparency, so we know that the former government pushed ahead with this scheme despite your reservations.

To put this behind us, I think it would benefit us to better understand how we arrived at this form of global adjustment refinancing and what the negative consequences could be if we continued with the previous government's approach. Can you please elaborate on this and explain how you got into this scheme and the implications for electricity rates?

Mr. Steen Hume: I'll speak to this, and others can chime in. I think, as was raised in previous iterations of the standing committee from different public servants, at the time the GA refinancing was being developed, the government was trying to reconcile two competing priorities: one, a desire for lower electricity rates, and two, meeting its path-to-balance commitment.

What they were trying to do was be able to reduce electricity rates in a fairly significant way. Earlier, before GA refinancing, we had brought forward the 8% rebate program to help lower rates. I guess what had happened was, from the government of the day's point of view, that wasn't enough and they needed something more bold. By the same token, they'd also wanted to reach their path to balance. So the GA refinancing idea that surfaced was a way to meet that desire to reduce rates by 25% and then hold them to inflation for a number of years, and then manage the year-over-year increase after that.

To accomplish that required, as I think Gadi said in his testimony, threading the needle on a bunch of very complex things. One was the accounting treatment; secondly, was it financeable; and then thirdly, what were the constitutional implications, and that really pertained to the idea of reallocating costs to future ratepayers. All of those things, the public service, in a variety of its decision-making documents, raised with the former government, and the concerns about trying to thread that needle and the implications if any one of those three legs of the stool came apart, whether it was a fiscal hit for the program, a constitutional challenge, or going out to market and no one chose to buy the debt. Those were all risks that were surfaced on a regular basis.

I think the pivot that we've made as a result of the recommendations of the Auditor General as well as the independent inquiry is to move to a structure of rate mitigation that is more accurately reflecting the cost of it on the provincial books so that taxpayers and ratepayers know what it costs for rate reduction. The approach that we're taking by expanding the current 8% OREC is a model that is, again, more transparent because it will be seen right on the electricity bill for ratepayers. I think we've taken a number of steps to provide something that is more accountable and also more transparent.

The Chair (Ms. Catherine Fife): Looking to the government side? MPP McDonell.

Mr. Jim McDonell: When we go back in your explanation, what was your opinion of what they—I know they were trying to go to balance, but was it a fair way of doing it, basically, with the intent of keeping it off the books and keeping that debt away from the oversight or the view of the general public and, really, the government?

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Mr. Steen Hume: I don't really have a personal opinion about it. Professionally—and I can only speak to the electricity policy side of this—the balancing of the provincial budget is not my bailiwick, but what I would say is that I think we were challenged with a fairly daunting task to reduce electricity rates. As folks are probably aware, the electricity system in Ontario is about $20 billion. Many of those costs are quite fixed. It's hard to find savings. We continue to try and do that.

Already we've taken a number of steps with the cancellation of some renewable contracts and the reducing of the cost of conservation on the rate base. All of these steps help to pull down the costs that benefit ratepayers, but to do it in a dramatic fashion like 25%, unfortunately took a bolder action, as I alluded to, in trying to balance a variety of competing priorities to thread that needle. That's one of the reasons I think that our comments in the cabinet submissions, in the Cabinet Office notes, were fairly pointed about the potential risks to the government should the project fail.

Mr. Jim McDonell: I guess the comment I would make—not that it wasn't a needed reduction of 25%; everybody agreed that needed to be done. But from my point of view, we were doing it in a way that—clearly it had to go with the ratepayers; there's no question. But we took efforts to hide that cost from the public, by going through a sham—this entity to hide it was basically there to hide the debt, so that the consumer, the resident, couldn't see what it was costing.

In a normal event, you'd take the money off and put it as a line item on the budget, but nowhere did you see this in the government debt, and clearly it was a debt. We were borrowing money for four or five years and just pushing it out into the future, but not telling the public what we were doing. I think that was the concern.

Maybe just your follow-up, being on the inside and seeing this—I know you should have no comment, I guess, on whether there was the urgency to get to balance, but the way we got to balance was the question.

Mr. Greg Orencsak: Unfortunately I can be of no help because I wasn't part of the government at the time these decisions were made, but—Gadi?

Mr. Gadi Mayman: At the risk of repeating what Steen has said, we had expressed concerns. Specifically from the Ontario Financing Authority, our concern was around the cost of borrowing. The select committee did receive all of our emails, and the Auditor General had them as well.

In the Auditor General's report, there's a quote from one of my emails back in January 2017—well before this became public—which said that I hoped that the government came to the conclusion that we would do the borrowing rather than through this complicated structure, because it would be cheaper. But the government faced a variety of choices that it had to make. Ultimately the government, after receiving advice from Treasury Board, from the Ministry of Energy and from the Ministry of Finance, chose to do what they deemed to be the best decision.

Ms. Karen Hughes: Maybe just to add one thing to that, from a Treasury Board perspective, we did think that there would be note disclosure and information provided through the public accounts. It turned out that it was changed into the other program, so that never did come forward, but we did expect that it would be reported in some fashion through note disclosure on the public accounts—at least that was my understanding.

Mr. Jim McDonell: So clearly, not only did it cost more because of the way they did it, but for a government that talks about transparency—it was anything but that. It was clearly done—

The Chair (Ms. Catherine Fife): One minute.

Mr. Jim McDonell: —so that people wouldn't see exactly what was there. We just have a minute, but do you have any comment on that? Or the auditor?

Ms. Bonnie Lysyk: I guess I would say that the process that was used wasn't transparent in the sense that money was being borrowed to fund a deficit in terms of the difference between generation costs and monies collected from ratepayers. The rate issue versus taxpayer issue is pretty much a red herring in the sense that the consolidated financial statements for the province incorporate both. The difference, again, is, if you have a rate-regulatory process, then you have rate-regulatory assets; if you have a government policy decision to reduce costs, then you have a tax base decision, because the government is making a clear decision separate from a rate-regulated process. So that's kind of the simplicity of it.

The Chair (Ms. Catherine Fife): We'll move back to the official opposition. MPP Morrison.

Ms. Suze Morrison: In terms of the debt repayment for the borrowing, as you've said before, it has moved from the ratepayers onto the tax base. In the report, as the debt was structured when the ratepayers would have been paying it back, that repayment wouldn't have come into effect until 2028. Is that debt as it exists now on the tax base currently in repayment, or does that not come into effect until 2028, as well? And will that have any effect on hydro prices in 2028?

Mr. Gadi Mayman: Under the proposed legislation, Bill 87, and the way that the government is managing the debt in the interim, there is no new borrowing under the Fair Hydro Trust. That was cut off back in September. The debt that is outstanding, though, will remain outstanding. Instead of the ratepayer having to pay that back over time, the government has stepped in and the government will be providing, through the fiscal plan—so through the tax base—the interest payments to the trust that the trust can then pass on to investors. Ultimately, in 2033 and 2038, when the two debt instruments that were issued, the two bond issues that were issued, mature, the government will be providing to the Fair Hydro Trust the amount of money in principle that is needed to repay the debtholders.

Ms. Suze Morrison: My next question is around some of the consulting costs associated with this scheme. One section talks about $2 million being spent on external advisers as part of this scheme, and in another section it talks about half a million dollars being spent on lawyers in relation to the auditor's review. I'm wondering if you can speak to if that's typical for a ministry—to be spending $2.5 million on external consultants as this plan was orchestrated.

Ms. Karen Hughes: At a high level: The public service often employs external consultants to help with some advice from a legal perspective going forward if they need it, in particular with respect to complicated issues or different things coming forward. So it isn't uncommon for the public service to use external consultants to supplement the work that our staff does.

But in this case, I'll turn it over to Steen to speak to the specifics around this.

Mr. Steen Hume: I think—and this has been raised in the past—because of the unique nature of the structure that was applied with respect to GA refinancing, the advice to get the structure to work was not readily available within the public service, because it's not something we do every day. Specifically, views around securitization—it's more of a private sector concept, which required us to solicit advice from external legal firms. With respect to the accounting treatment, which—this territory, we've gone over quite a bit. To understand the rate-regulated accounting, that was also sought externally—and even to the degree of understanding the constitutional implications of the approach required us to seek the advice of a former Supreme Court justice. In a sense, because of the uniqueness of the approach, it necessitated that outreach into external consultants.

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Ms. Suze Morrison: So that's not a typical amount that a ministry would spend on external consultants, then.

Mr. Steen Hume: I can't really speak to if it's a typical amount.

Ms. Karen Hughes: I think it varies depending on the particular project and the nature of the work that you're asking to be done.

Ms. Suze Morrison: Okay. Thank you.

Ms. Bonnie Lysyk: With respect to the costs that we had quantified in the report, those were at the time we did the report. Likely, there are subsequent costs after this, so it isn't reflective of the total amount.

From the vantage point of the Office of the Auditor General, I would have to say that the costs that we saw spent on the accounting were higher than we have seen in the past. So I would say in this case, it was quite unusual to see the extent of the money spent.

The other side of it is, the accounting advice was for government as well as IESO, and it was all tracked in IESO. There wasn't a separate billing for government advice and for the accounting and auditing at IESO, which we had concerns with at the time as well. We've already, as has been mentioned, addressed this going forward, but that was our concern at the time.

Ms. Suze Morrison: Thank you.

The Chair (Mr. John Vanthof): MPP Vanthof?

Mr. John Vanthof: I'm going to start with a quote from the Ontario Financing Authority: "Had the government borrowed it in its own name"—basically, rate-regulated. The taxpayer, the ratepayer—the government borrowed the money, didn't borrow it in its own name, and that caused a potential increase in cost because the government can borrow money at a cheaper rate, and it also kept it off the government books.

I just want to clarify in my own mind; I think I've got this right. The government continues to borrow money to subsidize hydro rates, so the rebate. It's no longer the Fair Hydro Plan, because it's now on the government's books, and rightfully so; I agree with that. But just to be clear, the government of Ontario is still borrowing large amounts of money to subsidize hydro rates.

What year was it?

Ms. Suze Morrison: 2030.

Mr. John Vanthof: No, the year—if they decide to stop that, then all things being equal, there would be quite a large increase in hydro rates.

Mr. Steen Hume: That would be correct, yes.

Mr. John Vanthof: Okay. I just want to make sure I get it through my head that just because the Fair Hydro Plan is gone, it doesn't mean the borrowing is gone. The savings—$4 billion minus, and that's also based on interest rates, and those would be over the long term. That's actually the savings, but it's not that the—I'm repeating myself, but I think a lot of people don't understand that this rebate is not coming out of thin air. The government is borrowing money to subsidize the rates. So the issue really is that they were trying not to borrow it in their own name to not have it in the books, with the Ontario Financing Authority.

The government trying to borrow money, not in their own name: Would you believe that is a generally accepted accounting principle?

Mr. Gadi Mayman: Well, it's not related to accounting. I do want to try to address the earlier part of your question, though, when you talked about how we need to continue to borrow.

The electricity rate mitigation is now part of the government's $154-billion expenditure plan for the year. We have a deficit of slightly over $10 billion, so what we're borrowing is $10 billion. You could make an argument that if we weren't subsidizing electricity rates, the deficit would only be $7 billion, $7.5 billion, whatever it is, but you could equally make the argument that that's one program amongst a plethora of programs that the government has. So to say that everything that is done to subsidize electricity rates is borrowed is no more fair than to say that everything we do for education or health care is borrowed. A small portion of it is. I think that's a really important distinction when electricity rate subsidization is clearly in the government's fiscal plan. It is going to be part of the estimates from the Ministry of Energy as to how much the expenditure is. It will be clear and transparent from a fiscal perspective. Steen has already mentioned how it would be clear and transparent for all of us as ratepayers when we open up our hydro bill every month, as to how much the subsidy is. So it's not as cut and dried as that we're going out and borrowing whatever the amount is for that electricity subsidy program. That is one of many programs that the government has.

Mr. John Vanthof: I think we're in agreement. As a layperson who used to watch these—when we talk about the different accounting principles, the fact of the matter is that the true cost of hydro is not reflected in your bill, right?

Mr. Steen Hume: It's reflected but it's not as visible. Under the new structure—there is currently an online rebate for the 8%. That will now also include the rate mitigation that is allowing for the government to hold rates at inflation, which is currently what the policy—

Mr. John Vanthof: I think we're agreeing; I phrased it wrong. The true cost of hydro is not reflected in what you're actually paying for the hydro. It could be now reflected in the bill because you will see it.

Mr. Steen Hume: Correct.

Mr. John Vanthof: But it's not actually reflected in what you're actually paying because there is money coming from somewhere else—

Mr. Steen Hume: Right.

Mr. John Vanthof: —to subsidize it.

Mr. Steen Hume: I think maybe I'd characterize it slightly differently. Under GA refinancing as the structure, where the bill reduction was reflected was in the electricity line of your electricity bill. That includes a whole host of costs, but that's where we were making the adjustment. As we move forward, we are now allowing that electricity line to just naturally be what it should be, as set by the OEB through regulated price rates, but that bill increase is addressed through the rebate as the way to keep the rates down, which is transparent.

Mr. John Vanthof: Yes. So the Fair Hydro Trust—the people who invested in it are going to be paid for their investment, right? It's backed by the government; that's basically what it was. So where would the Fair Hydro—does that appear under the Ministry of Energy? If someone went searching for the Fair Hydro Trust, where does that appear in the books?

Mr. Gadi Mayman: The interest costs will be covered by the government. I'll let Steen address it a little more; I probably jumped in too soon. But as part of the cost that is identified in the Ministry of Energy's estimates will be the interest payments that are going to be made on that debt that's outstanding.

Mr. Steen Hume: Yes, that sums it.

Mr. John Vanthof: Is there going to be a line somewhere five years from now where someone's going to scratch their head and say, "What is that"?

Mr. Steen Hume: Are you referring to a transfer payment line or—

Mr. John Vanthof: No. If we're talking about transparency—the Fair Hydro Trust was created, right?

Mr. Steen Hume: Right.

Mr. John Vanthof: And now it's no longer an investment vehicle. So five years from now, where can we find where the Fair Hydro Trust is?

Mr. Steen Hume: The Fair Hydro Trust is going to continue to be in place to manage the existing debt. That's about 20 years apiece. Ontario Power Generation will be responsible for the administration of the trust.

I can probably bring Ken up and he can speak in more detail about how they plan to reflect the trust on their own books, if you would like that.

Mr. John Vanthof: But that's where it would show up, on OPG's leger?

Mr. Steen Hume: I don't want to speak for OPG. I'm also not an accountant, so I want to be careful about—

Mr. John Vanthof: Welcome to the club.

The Chair (Ms. Catherine Fife): Welcome back. Can you please introduce yourself for the record?

Mr. Ken Hartwick: Sure. I'm Ken Hartwick, the CEO of Ontario Power Generation, previously the CFO when the process with the trust was done.

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From OPG's standpoint, the trust is held in a separate entity, which is there. Up till now, it has been consolidated into OPG as well. But the trust statements are kept separate. They're put on our website. They're available to both investors who have invested in the bonds—and they'll be there until the bonds are repaid in, as has been mentioned, 2033 and 2038, when all of the debt is repaid. But the statements will be put on the appropriate website annually. Anyone who chooses to look at them can look at them.

Mr. John Vanthof: Okay. How much—

The Chair (Ms. Catherine Fife): You still have five minutes.

Ms. Suze Morrison: My next question is to the IESO. In section 4.5 of the auditor's report, it speaks to the fact that financial statements were restated five years after the fact to basically, as I understand it, lay the groundwork for the rate-regulated accounting that would come afterwards. Can you just explain to me how it came to be that your board approved basically editing five-year-old financial statements?

Mr. Peter Gregg: Yes, I will attempt to do that. I would like to say that neither I nor my CFO were actually present at the time, so I don't have first-hand knowledge of it.

Ms. Suze Morrison: Fair.

Mr. Peter Gregg: But as I understand it, certainly Fair Hydro was a catalyst to that decision. At the time, the board sought the advice of management, but also management included the advice of the several accounting firms—most prominently, KPMG—to take a look at the applicability of rate-regulated accounting. That was the change that was made in—

Ms. Suze Morrison: I'm sorry to interrupt, but KPMG was giving you advice on this and they were also the auditors?

Mr. Peter Gregg: Correct, absolutely.

Ms. Suze Morrison: Yes, okay.

Mr. Peter Gregg: They were the auditors for the IESO's financials, yes, and they also provided accounting advice. Based on that advice, the board did make that decision in 2017—I think it was February or March 2017—to retroactively restate the financials to reflect rate-regulated accounting.

As I stated earlier, that's a decision that we reversed last year. We're no longer using rate-regulated accounting.

Ms. Suze Morrison: Is that a common practice that you've seen anywhere else, where organizations—government or non-government—have gone back and restated financial statements?

Mr. Peter Gregg: I don't know if I'd say that it's a common occurrence. What I would say, as I have seen in other instances, is that there are developments that happen in accounting. It's something that you take a look at on a fairly regular basis to see if there's something that may need to be updated. But I would admit that that was a fairly significant change to have been made, yes.

Ms. Suze Morrison: What steps at the IESO have you taken to eliminate this practice, going forward?

Mr. Peter Gregg: It's just very simple. We no longer use rate-regulated accounting. It's not applicable anymore.

Ms. Suze Morrison: No, but in the restating of financial statements?

Mr. Peter Gregg: They have been restated to reflect that there is no longer rate-regulated accounting—and in our market accounts, also. The way we've presented our market accounts has been changed as well. Hopefully, I'm answering your questions.

Ms. Suze Morrison: Yes. In five, 10 or 15 years down the road, let's say, your board and your senior staff have turned over at IESO again. How do we ensure that we've learned from this lesson and we don't have a future board that's going to come back and say, "Oh, we want to do something funky on the books again, and we're going to go back and restate the last five years," whether it's with rate-regulated accounting or some other accounting treatment, and so we're not going back and restating financial statements from five years previous?

Mr. Peter Gregg: I would stop short from providing any guarantee of what future people would do. I would say that we've certainly learned a lot from this experience. We've applied those lessons. I think that rigour and transparency around accounting decisions in the future need to be much greater, in my own view.

I think those lessons learned—internally, they've been captured, so I also asked our internal auditor to do a review of the original decision-making. That has been shared with our board and has been shared openly inside senior management. We're applying those lessons to ensure that we have the culture and the practices that make sure that we have robust, transparent decisions in the future.

The Chair (Ms. Catherine Fife): One minute.

Ms. Suze Morrison: Okay, thank you. John, anything else?

Mr. John Vanthof: No.

Ms. Suze Morrison: No, we're good.

The Chair (Ms. Catherine Fife): Okay, thank you very much.

Before we move over to the government side, I would just like to welcome a delegation from Ghana. Welcome to Ontario's public accounts committee, where we try to follow the money.

Moving to the government side: MPP Calandra.

Mr. Paul Calandra: Peter, since you're at the table—Mr. Gregg; excuse me. Your auditor was who?

Mr. Peter Gregg: KPMG at the time.

Mr. Paul Calandra: When they advised you or were advising you—I appreciate that you weren't there—

The Chair (Ms. Catherine Fife): Mr. Calandra, can you just move closer, please?

Mr. Paul Calandra: I'm sorry. When they were advising you on how to account for this, I wonder if you're aware of what they used as the basis for recommending the change.

Mr. Peter Gregg: Sure. I will make the standard disclosure that I'm not an accountant, but I'll give you my perspective on that. As I understand it, they—

Mr. Paul Calandra: I'm not overly interested in your perspective. I want specifically what it was that they used.

Mr. Peter Gregg: Yes. I'm just saying "perspective" because I don't have the first-hand knowledge, but as I understand it.

Mr. Paul Calandra: Okay.

Mr. Peter Gregg: They did look to US GAAP as a basis of the move to rate-regulated accounting. They also looked at cousin organizations to us. There are other independent system operators across North America—seven in the US. They looked at that as precedents and were primarily informed by US GAAP and felt, in their advice, that that was applicable in our circumstance.

Mr. Paul Calandra: Where is Gary? Is Gary still here?

The Chair (Ms. Catherine Fife): The Auditor General also could clarify this GAAP business.

Ms. Bonnie Lysyk: They had been looking at similar IESO organizations as a means of saying that the accounting was used there; therefore it was transferrable into Canada. We actually looked at those organizations as well.

In fact, we contacted CPA Canada. Those organizations are not comparable to the IESO, for a variety of reasons.

Mr. Paul Calandra: Yes, and that was the next thing that I was going to ask.

Sorry, I don't know your last name. I hate to call you by your first name.

Mr. Gary Wuschnakowski: Wuschnakowski.

The Chair (Ms. Catherine Fife): Good luck with that.

Mr. Paul Calandra: Right. So, Gary, did you review what KPMG did at all when offering advice? In your earlier testimony, if maybe even just for a brief moment, it seemed that you were disagreeing initially with some of the findings of the auditor and how this accounting was to happen—perhaps initially, but that has obviously changed. But I wonder: Did you review anything that KPMG put forward as part of your assessment?

Mr. Gary Wuschnakowski: Unfortunately, I can't speak to the time as I was not involved in the file during that period.

Mr. Paul Calandra: Is there anybody who can? Unless this came out during that financial—

Mr. Gary Wuschnakowski: One of the key pieces, as the deputy mentioned earlier, is that as part of consolidating the financial statements of controlled entities, we rely on the audited financial statements of each of those entities. In this instance, we relied on the audited financial statements of IESO in terms of their work. I could pass that to IESO to speak to the acceptance or application of those standards on their financial statements.

Mr. Paul Calandra: Right. Just before you pass it on, when the government—and it's applicable, I suppose, going forward. On agencies, if something like this comes forward, do you not also—or do you leave it to the auditor—look at the rationale that underpinned the advice that they're giving, or do you just look at what they have presented and assume that it's based on—because in this instance, it seems like the auditor is suggesting that the comparables that KPMG used were completely not applicable, and you're suggesting that you looked at what KPMG brought forward and accepted that as the rationale for moving forward.

Mr. Gary Wuschnakowski: I certainly can speak to the approach going forward, as I mentioned earlier, regarding advice or information that we require from each of the consolidated organizations and the province with respect to providing consulting advice or accounting advice from the private sector, including advising the Auditor General of that fact going forward.

I can't speak to what had occurred or speculate on what had occurred in the past in that regard. That being said, the province does consolidate a large number of organizations within our financial statements, and there is reliance that is placed on those financial statements in terms of the due diligence that each of the boards and those organizations place on the accuracy and validity of the statements.

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Mr. Paul Calandra: Sorry; if I can ask the auditor, then—again, I'm under the same provisos as everybody else. I'm not an accountant, so perhaps these are stupid questions. I apologize if they are, but I just make the assumption that when somebody is looking at an audit statement, they look at the rationale that underpins—and in this instance, in particular, this is a fairly expensive change in a policy to the taxpayer. Is it not just standard practice that when we look at what somebody has presented as being an audited statement, we look at the assumptions that underpin that, or is it just the practices to accept what has been—how do we ensure that what we get is accurate?

Ms. Bonnie Lysyk: Maybe I'll just answer it this way, in that we are the group auditor for the province: KPMG, in this case, was the component auditor. There's a responsibility to communicate with us. Unfortunately, we didn't receive the communication that there was a significant policy change around the recording of a rate-regulated asset prior to them signing and finalizing the financial statements at IESO. If we had, we would have engaged in that conversation on the logic of that accounting change to, hopefully, work with them and show that assuming something at an IESO level in accounting under Public Sector Accounting Standards doesn't make that logic transferable to the government's consolidated statements.

To be fair, the only auditors in Canada who audit government financial statements are legislative auditors across Canada, so they wouldn't have the experience with applying that first-hand logic to the consolidated statements. So putting in place a means by which there's communication even more enforced between us is a good thing to prevent this from happening again. We did receive documentation around the logic that was used, but we found flaws with the logic.

Mr. Paul Calandra: Okay.

Steen, you had mentioned that there were, I think, three mechanisms by which people were informed, or that through the chain there was knowledge given of some trepidation towards this. In the testimony at the select committee, there's one part of it I see, on FT65, where it's from Treasury Board, but the note goes to the finance minister with respect to being unhappy with the financing.

But she also goes on to say in her testimony—or, Mr. Thompson, excuse me; not "she"—that it just went to finance, not to the Minister of Energy. At what point does the Minister of Energy get looped in? I'm sorry if you're restating stuff that you've already talked about at select committee, but I didn't read everything in the select committee. But at what point does the Minister of Energy get looped in, or do you loop him in, or does anybody at Treasury Board, IESO, anywhere, tell the minister that this is wrong, and in what form do you do that in?

Mr. Steen Hume: Yes, the Minister of Energy gets looped in on a regular basis through this process, definitely. The mechanism in which the minister would have, in a formal way, understood some of the concerns that the public service had with respect to the mechanism would have been articulated in the cabinet submission. The minister is responsible for that document and has to sign it. The assumption is that when they sign it they have reviewed it. Similarly, the deputy minister also has to sign that submission.

Within that cabinet submission—you've probably seen some cross your desk as well—there are usually sections in the document that identify considerations and risks. In the case of Fair Hydro, these included concerns around legal risk, constitutionality, financing risks that I mentioned and also the accounting. There were also risks around implementation that the agencies identified in terms of OPG and IESO.

All of these were documented in the cabinet materials that we, as the public service, prepared. I believe it was former secretary Orsini—when he appeared before the select committee, he tabled two documents: One was the cabinet submission from March 1; the second was the Cabinet Office pink note. For those who aren't familiar with this, Cabinet Office is a central agency. It manages the cabinet's schedule, but it also does due diligence on cabinet submissions coming in. So they write a note—it's usually quite elaborate; 20-25 pages—and, in it, they will articulate those kind of risks and concerns that have been flagged from the different perspectives of the central agencies, as well as the ministry itself.

I believe that, also, in adhering to the requests of the committee, a number of those documents were provided to the select committee as well.

Mr. Paul Calandra: Okay. Mr. Hartwick, if I could have you come to the table briefly. You should stay, IESO. There might be some more.

Again, I apologize, because you're probably restating stuff that you've already talked about at the select committee. But you were CFO at the time that this was happening?

Mr. Ken Hartwick: Correct.

Mr. Paul Calandra: Am I correct in assuming that you weren't overly thrilled by the mechanism that had initially been put together by the previous government? Am I correct on that?

Mr. Ken Hartwick: I think our task was to set up the trust, put the financing in place as effectively as what could be done. I think there has been talk whether the government could finance more cheaply, which I think is correct, but ours was to put in place a structure, though, that would allow financing to happen via the trust. So whether it was—

Mr. Paul Calandra: So no opinion was authored as to what you were being asked to do? Did OPG just do what they were told to do?

Mr. Ken Hartwick: No. I would say we had a series of criteria that we knew had to be met in order for OPG to set up the trust, and then the financing that goes along with the trust. Some of those criteria were related to ensuring we could get the financing appropriately—again, looking at it very much from the perspective of an external bondholder, the people who ultimately lent money to the trust that then was backstopped by the ratepayer. So a lot of the criteria are around ensuring that that structure would support the financing, and then the protection of those bondholders for potential policy changes in the future or other things that might happen.

Our focus was very much on the effectiveness of what was going to be done once the policy decision was made, which is where we were.

Mr. Paul Calandra: All right. So, IESO, your auditor was KPMG, but now you've asked the auditor to do your work for you.

Mr. Peter Gregg: It was KPMG. For 2018, we asked the auditor to come in to do the audit. We're currently in the middle of an RFP to select our next auditor.

Mr. Paul Calandra: Okay. Ontario Financing Authority, can I have them come? Thank you.

I don't know if you can answer this, but when this was being put together and you went to the market to cover the cost of this, how was it viewed by the marketplace?

Mr. Gadi Mayman: We didn't go to the market; OPG did. I think OPG did a very good job of constructing, of getting the appropriate ratings, and of marketing the bonds and selling the bonds.

The bonds themselves were well-received by the market. You might make the argument, "Why wouldn't they be, when investors would sit there and say, 'I'm effectively getting Ontario debt and I get an extra 40 basis points of yield?'"

I really have to say that OPG did an incredibly professional job of putting this together and doing it successfully.

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Mr. Paul Calandra: Again, if you can't answer this—but what were the risks as you started to consider unwinding it as we've done through Bill 87, going back to the market as such and telling them that this is being done differently? Do any of you have any knowledge of how that was perceived, the unwinding of it? There's a lot happening in energy over the last nine months, so I'm just wondering what—

Mr. Gadi Mayman: Yes. These are not what we would call very liquid bonds. Liquid bonds are bonds that trade a lot, and there's a lot of liquidity. Ontario bonds are very liquid. They move back and forth. They're traded every day. These bonds do not have much secondary trading that goes on with them, but there has been absolutely no disruption that I'm aware of in the marketplace around these bonds.

We have made it very clear to our investors, many of whom are the same investors in the Fair Hydro Trust bonds, that the government will step in, as was required under the original legislation and remains under proposed Bill 87, to provide the necessary backstop if the legislation were to be changed, which it will be changed.

Mr. Paul Calandra: I want to go back to Ms. Angus. You had initially started off—I guess you were with Treasury Board at the time; right?

Ms. Helen Angus: Correct. I've just come up to the table. Hi.

Mr. Paul Calandra: Oh, sorry. I missed your name—

Ms. Karen Hughes: Karen Hughes.

Mr. Paul Calandra: Sorry, Karen. You might as well stay, too. You were at the Treasury Board at the time?

Ms. Karen Hughes: Right.

Mr. Paul Calandra: Okay. And like many of us, you're not an accountant.

Ms. Karen Hughes: That's correct.

Mr. Paul Calandra: I'm just somewhat concerned in a sense—and perhaps it's a going-forward thing. There are a lot of non-accountants handling what is a very large borrowing program. At what point do we start to get worried that there are a lot of non-accountants dealing with something that is a massive amount of borrowing? There's a massive change from the IESO on how things are done based on recommendations that don't exist anywhere else in the world. At what point do—

Mr. Jim McDonell: Flags come up?

Mr. Paul Calandra: —do flags come up and does the fact that you're not an accountant—I don't mean this in any way to be disrespectful. Are there shortcomings in the process that you can identify for us so that—because ultimately, it's the politicians—regardless of anything else, I do believe in parliamentary responsibility. We get elected to do these things. The minister ultimately is responsible for that. I get all of that.

Maybe back, as well, to the auditor: There seems to have been a lot of avenues—and I'm sorry, the IESO, it seems, unless I'm wrong—you seem to have been very, very important in creating a mechanism whereby the taxpayers got truly ripped off. It's not even that they got ripped off—and I'm not saying—because as the finance authority said, it's a government program. It could be a government program, but we can't, in any way, shape or form, be proud of this. This was a failure on so many different levels, and it just simply can't happen again. It seems to have all started with a faulty accounting premise, if I can say that; I don't know if I get parliamentary privilege here. Can you give me some advice on how we don't—and back to you as well, Auditor—how we could stop this from happening again, and do we not give you enough strength to hit back at ministers or the government? Somehow you don't feel protected in that fashion?

Ms. Helen Angus: I can try and start answering that and give my colleagues a bit of break.

The Chair (Ms. Catherine Fife): There are just under two minutes left.

Ms. Helen Angus: I'm Helen Angus. I'm currently the Deputy Minister of Health and Long-Term Care. I was the deputy minister at Treasury Board.

I would say that there were professional accountants employed within Treasury Board Secretariat, obviously with outside help—because we already talked today about the consulting contracts. If I were to think reflectively about where we got to, I think a closer relationship with the Auditor General would be an important aspect to that. I believe that we did speak truth to power in the various notes that were provided and the concerns that were raised as the cabinet decisions were made, including in both the concurrent Treasury Board and Cabinet Office notes on March 1, 2017.

But I think there are opportunities for us to strengthen the relationship with the legislative officers who have a job to do and also have a platform to speak the truth and to bring a certain discipline and expertise to that. I think, going forward—it sounds like today there have been important changes made in that relationship. I'm heartened to hear it, because I lost track of this file probably 10 months ago. I'm heartened to hear about the relationships and how they have been strengthened. Certainly, in my own work at the Ministry of Health and Long-Term Care, that's the intention, to do that as well.

The Chair (Ms. Catherine Fife): One minute. Oh, you're done.

One comment from the auditor.

Ms. Bonnie Lysyk: I believe a key is disclosure and discussion with the Office of the Auditor General. It's important both from OPCD—the controller's office—as well as from the entities that consolidate within the consolidated statements—their auditor's understanding of that. There shouldn't be, "We are the group auditor, and they're the component auditor." There should be interactive conversation between the auditors of the entities that consolidate in my office.

In terms of the OPCD, I think it is moving forward very well. The word "relationship" is interesting. We didn't have a bad relationship. What we had is a situation where there was a lack of disclosure on a key accounting issue that had huge ramifications on the government's audit opinion.

The Chair (Ms. Catherine Fife): Okay. Thank you. We'll leave it there.

Going forward, you have 16 minutes, the official opposition and government. This is our last question cycle.

On to the official opposition: MPP Vanthof.

Mr. John Vanthof: I think I'd like to pick up where Mr. Calandra was going, and the Auditor General.

What seems to have happened here, in my opinion, is the government had one noble goal and maybe perhaps one that wasn't so noble. The noble one was to bring down the cost of electricity; the not-so-noble one was to not have it show up on the books, and they worked back from there. As opposed to seeing what they could do, they worked back to say, "Okay, we will find the people who will find us the tools. The people we don't like or who have opposing opinions—we will drown them out."

I cannot get away from this without doing one farm analogy. I made my living milking cows, and my wife spent our money buying horses. One day, a horse trader came to our yard and stopped. My wife had a beautiful horse. He came and he offered to buy that horse from me. I said, "Why do you want that horse?" He says, "I've got a set of papers that will match that horse exactly." So that horse was going to be an instant purebred and was going to make a lot of money. That's kind of what this is. They wanted the end to justify the means.

I understand that there's a much better relationship. But I still don't see, and maybe we can't have, a guarantee that this won't happen again, because quite frankly, sitting here and being like—remember, when it was brought up, the Auditor General offered an opinion that, "Whoa, this is wrong," and nothing stopped. Obviously, many in the civil service raised their hand and said, "We don't think this is right," and nothing stopped. But I have no assurance or know—and none of us want these things to happen—that that won't happen again in subsequent governments—this one, the next one or the next one. I was shocked that nothing—it was just business as usual.

Is there anything that we can do, as legislators? Is there any avenue where, when you see something isn't—it shouldn't be business as usual. If the Auditor General raises his or her hand, should that stop it? I don't know, because it didn't. I'm not confident that it would under any government. If a government decides that they're going to—and all governments have policy goals. You're elected to have a policy goal. I don't have a problem with that.

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But that any government could, conceivably, try to move the goalposts to reflect that policy goal—to anyone sitting here, is there anything that could be done? It's not a quick fix, but something that could be done to actually ensure that the result isn't—that you're going to go from the result, and go backwards. Do we need to actually, if the Auditor General raises an issue, pay heed to it, and is that the answer? Could you comment?

Ms. Bonnie Lysyk: Sure. I can comment generally. Hindsight is 20/20 now, but having said that, I think this forum, the Standing Committee on Public Accounts, is an important forum because I think it was—we can influence. We obviously can't change an action that's going to be meant to happen, so we influence. I think it's our job and the role of my office to bring to the attention of all the members any situations where we think the accounting is inappropriate, the spending is inappropriate, and we will continue to do that.

I think this is the reason why this committee is important—because we will raise it to your attention, which we did. I'd have to say that there was a lot of discussion at the public accounts committee. Having said that, hindsight is 20/20. Would we have done anything different? I don't think so. The only thing, I think, going forward that will be good that we will learn from will be the advance discussion with the private sector firms. If we have support on that, that will be very good—and keeping in the loop on accounting so that when advice from administration is given to government, it already incorporates our commentary and so at the end of the day, we know that administration and the Auditor General's office are recommending something that is acceptable to both. Then it will be determining whether it's a government decision to do one way or the other.

I think in this situation we, as an office at the Auditor General, kept trying to figure out why we were facing all these blocks. So we kept studying and we kept getting outside advice and we, as well, continued to go, "What is happening here?" Whereas it would have been good if there was a mechanism that somebody would have said to us, "You know what, this is going ahead no matter what the accounting theory is, whether it's right or wrong." I think that's what was going to happen here. It was going to go ahead whether or not the accounting was right or wrong. I mean, that's hindsight 20/20.

I guess what I'm saying is, advance discussion and alignment with the civil service so that we know, going forward, that it's either a political decision or it's administration that we have to work with harder to understand both perspectives and make sure, as a team in essence advising government and advising the members of the Legislature, that the right thing is being done.

Mr. John Vanthof: So—

Ms. Bonnie Lysyk: So it's still a long, hard road. If there's a tough issue, you'd have our assurance, as an office, we're going to be there bringing it to your attention. We hope something like this won't happen in the future.

Mr. John Vanthof: I think that that is—when we were at the Select Committee on Financial Transparency, a lot of the same people advised. I think it became apparent that a lot of civil servants did their job and provided advice, but there was a political decision made. At that point, that's where you came in.

Ms. Bonnie Lysyk: I would have to say, though, that there needs to be an appreciation, one big appreciation—probably, in the private sector area as well—that we are the auditors of the government. Private sector auditors do not provide opinions on the government's statements. They may look at accounting issues and interpret them, but that's pretty much it.

In this situation, there was no definitive opinion that on the government's consolidated statements the accounting would work, and that was confirmed to me by all the firms involved. The one thing we would probably ask of the private sector firms is that when the government throws up private sector firms' names and takes on the Office of the Auditor General, the firms actually come out and speak to specifically what they did and what assurance they gave and clear the record, because I do believe that nobody would say they provided an opinion on the government's proposed accounting for the Fair Hydro Plan.

Mr. John Vanthof: Thank you.

The Chair (Ms. Catherine Fife): MPP Morrison, go ahead.

Ms. Suze Morrison: Just following up on the train of thought of trying to prevent this from ever happening again: We talked about how we prevent this from happening on the public service side. Part of the auditor's report talks about the inappropriate legislated accounting, particularly in terms of how the asset was legislated into existence. How do we ensure that that type of legislative accounting practice doesn't happen under any future government? What protections need to be put in place to safeguard against this?

Ms. Karen Hughes: I can get Gary Wuschnakowski to add more, but I think we are continuing to follow Public Sector Accounting Standards, which I think requires us not to be legislating accounting, going forward. We're continuing to do that and have committed to doing that, going forward.

I'll turn that over to Gary, if you want to speak to that.

Mr. Gary Wuschnakowski: Sure. I would just echo that the province does follow Public Sector Accounting Standards in the preparation of its financial statements. To that effect, as part of the public accounts process, the statement of responsibility is clear in terms of our approach and application of the Public Sector Accounting Standards.

As well, the Auditor General Act requires the Auditor General to conduct their analysis based on that the statements present fairly in terms of the application of appropriate general accounting principles associated along those lines.

Ms. Suze Morrison: Okay.

The Chair (Ms. Catherine Fife): Sorry. The auditor would like to comment on that.

Ms. Suze Morrison: Please.

Ms. Bonnie Lysyk: I'll just provide a comment on that. I think sometimes when something is legislated, like the accounting structure, private sector firms view that as a source of reference, too, on the accounting side. I think not legislating something, not putting the act in place with the Fair Hydro Plan, would have also caused further reflection on some of the private sector firms' part, because there was a recommendation to the government to put through legislation to establish a regulatory asset because the Ontario Energy Board would not hear it as a regulatory asset—so just to clarify that.

The other side is, there is legislation in Ontario that allows regulations to be created to change accounting. We've been reporting on that in our chapter 2. Our recommendation would be, if that was ever thought to be changed, it would be good to remove the ability to put regulations in place to change accounting from PSAS to another form.

Ms. Suze Morrison: Thank you.

My next question would be, then, how do we also safeguard against potential conflicts of interest when engaging with private sector accounting for advice and audit opinions? Specifically, in reference to the public sector consultants who were engaged in this process, are these specific consultants or firms that are still being engaged by the government in any way?

Ms. Karen Hughes: I think that the firms involved would continue to have the opportunity to be involved with us through a competitive process, but we will continue to use external advisers for various capacities, going forward, to provide external advice. But we're now going to work with the Auditor General's office so that she's aware any time that we're using external accounting advisers, going forward.

We had done that in the past. We're going to ensure, beyond just OPCD who had done that in the past, that other agencies and entities of government are also notifying the Auditor General when they're hiring external accountants, going forward, for advice.

We'll ensure that that's part of the certificate of assurance process, as well, so that ministries will sign off that they have complied with that requirement, going forward, as we prepare the public accounts. We'll have a bit of a check and balance on that, in addition to asking for that to be submitted.

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Ms. Suze Morrison: Thank you.

Then, my last question would be to the auditor. Do you think that you have access to appropriate tools to be able to intervene when you're seeing questionable use of consultants or accountants within government offices, in terms of perhaps putting some restrictions on specific consultants or firms in specific instances?

Ms. Bonnie Lysyk: I think this is a good process that we're working toward, because there was nothing there, and now there will be a process of discussion and working together. Maybe the thing is just to let us see how that works. That question—if I see that there are issues or it brings up a thought process where there's maybe improvement needed, I would bring it back to the committee. But at this point in time, I think that's a good step forward.

We're reaching out to a lot of the private sector firms in Ontario now to establish that relationship, which does exist in other provinces. In smaller provinces, it's easier to keep on top of what's happening in the various entities, the firms that are involved—and even meeting with the private sector firms more often. Here, because there are a lot of partners in Ontario, there are a lot of people involved. But I think establishing an understanding of our role, working with the OPC and clarifying our understanding of the firms' role will help this down the road—the situation not occurring down the road.

Ms. Suze Morrison: Just one last follow-up to that: Do you think that, through this process, we have enough lessons learned and enough processes in place to prevent any future government of the day from embarking on any sort of similar accounting adventure?

Ms. Bonnie Lysyk: You know what? History has shown that, at some point, there's going to be some accounting issue. I think what we saw in this one was beyond what we've seen, in my experience in legislative auditing for 20 years, or in my colleagues' experience across Canada. This situation was highly unusual, so I don't foresee it repeating itself. Obviously, we'll have discussions on accounting issues, but typically, these things work themselves through, through conscious and good discussion.

The Chair (Ms. Catherine Fife): One minute.

Ms. Suze Morrison: Okay. Thank you. No further questions.

The Chair (Ms. Catherine Fife): Okay, thank you very much.

Moving now to the government side for your final line of questioning: MPP Parsa.

Mr. Michael Parsa: Thanks very much again for coming in today. My question is actually for Mr. Wuschnakowski, if you don't mind. Sorry.

Miss Kinga Surma: Your pronunciation was excellent.

Mr. Michael Parsa: Wuschnakowski, yes? Was it good? That's good. Take note, Paul.

Earlier today, it was described—an accounting practice. You mentioned to us that if there was storm damage, for example—somebody did; one of your colleagues, or maybe, perhaps, it was you—this would be one accounting practice that would come into play when storm damage is caused etc. Mind you, I don't know how. At that time, I guess the only damage would have been in public opinion and support for the government.

Other than the obvious accounting, what other borrowing options were available at that time to the government? From your understanding, were these presented to the previous government, ministry, cabinet etc.?

Mr. Gary Wuschnakowski: I think that may be a question for OFA, with respect to borrowing options and—

Mr. Michael Parsa: Sorry to drag you back.

Mr. Gary Wuschnakowski: No problem.

Mr. Gadi Mayman: When the government made the decision, which I think was a shared decision across the political spectrum, that interest rates—not interest rates, sorry; we all want interest rates to drop, too, but that's a different issue—that electricity rates should be lower, there were a number of options that were explored. The obvious one and the one that we've discussed at this committee would be the province borrowing in its own name.

It was determined by the government that that didn't meet the other objective that they had, which was to try to stay on the path to a balanced budget. They also wanted to keep the costs on ratepayers, which is different than the formulation that currently exists. The formulation at the time was that there was an undue burden that was placed on ratepayers of the day for assets that were going to be used for an extended period of time. So their decision was that they wanted ratepayers to pay it; they just didn't want ratepayers to pay it in 2018—they wanted it to be spread over a longer period of time.

Another proposal that we put forward to them—

Mr. Michael Parsa: Sorry, can I just interrupt you, if you don't mind?

Mr. Gadi Mayman: Yes, certainly.

Mr. Michael Parsa: This, knowing that this would cost us a substantial amount using this type of accounting, down the road?

Mr. Gadi Mayman: They were aware of that. We made them aware of that.

Mr. Michael Parsa: They were. And they still proceeded?

Mr. Gadi Mayman: Yes. Another alternative that we put forward that would have allowed it to stay as a ratepayer cost—although, as the Auditor General said, ratepayer or taxpayer, from a consolidated financial accounting perspective, it doesn't make a difference. But, if it was to be repaid in the future by future ratepayers, another alternative that we put forward to them was that the OEFC, the Ontario Electricity Financial Corp., would be the borrower.

OEFC is an organization that I'm also the CEO of, as well as the OFA. You may wonder how that's possible, and the reason is that there actually are no staff at OEFC. OEFC was set up in 1998-99 when the old Ontario Hydro was broken up. The purpose of OEFC was to take all of the stranded debt that was left over from the old Ontario Hydro. That stranded debt has been paid down over time.

If the decision were to have been made that OEFC was to be the borrower and provide the financing that the IESO needed to pay the generators, then stranded debt would have started to rise again. That was a decision that the government of the day did not want, so that's why the other alternatives were rejected.

There was also another alternative, which the government chose not to go with, which was to have a totally independent third-party trust set up that was completely removed from the government. The reason that they very quickly moved off of that was that they recognized that they would have absolutely no control over where electricity rates went in the future.

Mr. Michael Parsa: And it would be too transparent. People would know.

Mr. Gadi Mayman: I don't know whether it would have been so transparent. I think it also would have been very difficult to actually get it done. I think that the Fair Hydro Trust was, as it turned out, financeable because OPG was behind it and the government was behind it. I don't think that setting up a third-party trust to borrow billions of dollars on an expectation that at some point in the future, ratepayers were going to repay this, would have been financeable.

So that's a long answer to say that there were a number of different alternatives that were looked at, and the government of the day settled on the Fair Hydro Trust.

Mr. Michael Parsa: Okay.

The Chair (Ms. Catherine Fife): MPP Parsa, the auditor would like to clarify.

Ms. Bonnie Lysyk: Just to add to Gadi's point, the OEFC accounting—if it had gone through the OEFC, the accounting would be just like it would be on the taxpayer side, so the OEFC impact would have shown up on the government's statements. The OEFC, though, that vehicle, was used in the past to distinguish between the amount on people's bills and the amount that hits the taxpayer base, just so that the billing could be kept track of separately. So the OEFC was a vehicle that could be used if the determination was that there still was going to be an impact on the bills of the ratepayers, but the debt would have impacted net debt totally on the government's statements through consolidation. My understanding is, it would not have been a vehicle that would have produced the same result as eliminating the bottom line impact or the net debt impact for the province.

Mr. Michael Parsa: Madam Chair, how much time do we have?

The Chair (Ms. Catherine Fife): Just under 10 minutes.

Mr. Michael Parsa: Okay.

I'll let you go, and then I'll come back—

The Chair (Ms. Catherine Fife): MPP Ghamari.

Ms. Goldie Ghamari: Thank you, everyone, for being here today.

There has been a lot of back and forth, and I think I want to use my time to summarize a few things and get maybe a few concise answers, just so that I can get an overall picture of what's going on. My apologies in advance if I cut you short, because I'm just trying to be mindful of the time so that we can go back to MPP Parsa.

My first question, essentially, is for the provincial controller. It's with respect to our 2017-18 public accounts which, as you know, were given a qualified statement by the Auditor General. What I really want to know is, can you give us some details as to why this method of accounting that we're using now is a better approach for the government, moving forward?

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Mr. Gary Wuschnakowski: The 2017-18 public accounts accepted, or took into account, the recommendations from the Auditor General with respect to the Fair Hydro Trust. As a result, funding was appropriated within the Ministry of Energy as a transfer payment and reflected as an expenditure on the financial statements of the province through the Ministry of Energy. That reflects the full costs associated with the mechanism and as a result is quite reflective of the full spending associated with the Ministry of Energy.

Ms. Goldie Ghamari: Thank you. This question is for the OPG. Essentially, the debt that's already been accumulated under the Fair Hydro Trust is going to remain under your oversight, but we've already heard that repaying this debt when it becomes due is going to change if that legislation passes. I think there's a bit of a fine point of accounting there. If you could just summarize that in a couple of sentences: What is the OPG's ongoing role in terms of the Fair Hydro Trust, and what does that accounting adjustment mean, specifically in terms of savings for Ontario taxpayers?

Mr. Ken Hartwick: I'll deal with the first part, around what our role is. We're what's called the financial services manager, so we manage the trust itself. That really involves a number of the bondholders, ensuring that they get reporting on the status of their debt, ensuring that they receive interest payments that are due when they come due, typically every six months, and ultimately the debt gets paid off in 2033 and then 2038. We'll just manage that process with the existing debt note and, as has been mentioned, no new debt will be issued under the trust, to ensure that the obligations to people who lent money to the trust are met over the course of the upcoming number of years.

Ms. Goldie Ghamari: My final question is, in terms of the total cost to taxpayers, what is it going to be now compared to—I guess it was going to be $4 million in interest, at the time? How much are taxpayers saving now compared to what they would under the previous plan from the previous government?

Mr. Steen Hume: I don't have that specific number with me, but we do know that by using the provincial borrowing, we are getting a better rate.

Ms. Goldie Ghamari: As opposed to going through a third party?

Mr. Steen Hume: As opposed to going through a third party, as Gadi alluded to. The other thing that we are doing, from an energy policy point of view, is looking for ways to further reduce costs in the electricity system, which will allow us to, overall, keep rates affordably low, ideally. So that's ongoing work. And I guess, as Ken said, with respect to the trust, the debt will be serviced but no new debt will be incurred.

Ms. Goldie Ghamari: So is that where you're essentially referencing the global adjustment refinancing? Is that what you were referring to?

Mr. Steen Hume: No, what I'm referring to is that we're winding down GA refinancing once the legislation passes.

Ms. Goldie Ghamari: Okay.

Mr. Steen Hume: It will then be replaced by an on-bill rebate. That on-bill rebate is being financed through the government's fiscal plan, which then will be appropriately recorded on the provincial books so that we have that sort of double level of transparency. Ratepayers will know—and taxpayers, for that matter—what the cost of rate reduction is.

Ms. Goldie Ghamari: Okay. I think those are really all the questions that I have. Thank you.

The Chair (Ms. Catherine Fife): Okay. Going back to MPP Miller.

Mr. Norman Miller: Yes, sure. In the little bit of time that we have left—

The Chair (Ms. Catherine Fife): Four minutes.

Mr. Norman Miller: —I'm just curious, a bit more, about the apparent conflict for the IESO—I guess I'm asking a question now—of KPMG being hired to, it sounds like, devise the whole scheme for keeping borrowing off the books of the province, but also providing the audit of the IESO. It seems like a conflict, to me. Can you talk about that a bit? Do you see that as a conflict? Correct me if I'm wrong, but did they not sort of advise and help come up with this whole complex plan to keep this Fair Hydro Plan off the books, but then they're also auditing the IESO? I'd say it seems like they have a conflict.

Mr. Peter Gregg: I would say maybe the general answer to that is that it is not unusual or uncommon to have your audit firm perhaps advise on other services as well, perhaps accounting. But what is in place on boards—and we do have this in place—is that for management to engage them for services other than core audit services, the audit committee of the board must approve those activities to ensure that there wouldn't be a conflict in place.

Mr. Norman Miller: Okay. And maybe if the Auditor General could comment on this as well, please?

Ms. Bonnie Lysyk: I guess what we saw is that there was a consulting arm that was advising the province on the structure and was quite involved with all discussions around the structure and the accounting that would work in the design. There was a separate partner that was involved in doing the audit.

Just from a perception perspective, that partner that was doing the audit was also brought into meetings on the design. Typically, what you like to see is, if there is auditing, that you're not auditing what you designed. I think that's where we would have liked to see more of a separation.

If a firm is providing consulting services, they should have a complete wall between that and the audit partner doing the work, such that the audit partner and the quality assurance partner, which in this case was the case, are not brought into all of these discussions. A quality assurance partner should never be involved in the design or with the client, because they're sitting back and they're looking at the accounting from a third-person perspective. I think we were uncomfortable with that situation.

The Chair (Ms. Catherine Fife): Last minute.

Mr. Norman Miller: And that was not the case here; they were the same company doing both things.

Ms. Bonnie Lysyk: That's right—

Mr. Norman Miller: And they were in conflict with your advice as well.

Ms. Bonnie Lysyk: Yes, and there wasn't a separate billing for advice, through the province of Ontario. All the billings for the advice, the design and the auditing were on the same billings from the firm. So there was clear communication between all people involved on this.

Mr. Norman Miller: Thank you.

The Chair (Ms. Catherine Fife): Okay, there are only 30 seconds left. Any further questions? Seeing none, thank you very much. That concludes our time for questions this afternoon. I would like to thank all of you for appearing before the committee today.

As next week is constituency week, the committee will reconvene in two weeks to discuss Metrolinx, section 3.07 of the 2018 annual report of the Office of the Auditor General. If members have any questions that they would like the upcoming attendees to address in their opening remarks, please email them to the Clerk of the Committee by this Friday at noon.

COMMITTEE BUSINESS

The Chair (Ms. Catherine Fife): Many of you will know that we do also have a motion requesting authorization from the House. Ontario is hosting this year's Canadian Council of Public Accounts Committees. I know that that motion is before you. Is there someone willing to move the motion? MPP Morrison.

Ms. Suze Morrison: I move that the Chair write to the House leaders to request that a motion be presented to the House to authorize the permanent members of the Standing Committee on Public Accounts and staff to attend the 2019 Canadian Council of Public Accounts Committees conference in Niagara-on-the-Lake, Ontario, from August 19 to 21, 2019.

The Chair (Ms. Catherine Fife): Thank you. Is there a seconder?

Interjection.

The Chair (Ms. Catherine Fife): There's no seconder needed. All in favour? All opposed? Seeing no opposition, then it passes. Thank you very much.

This committee will now move into closed session so that the committee can commence report-writing. I would ask all members of the public to leave the room at this time.

The committee continued in closed session at 1440.

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Also taking part / Autres participants et participantes
Ms. Teresa J. Armstrong (London–Fanshawe ND)
Ms. Bonnie Lysyk, Auditor General

Clerk / Greffier
Mr. Christopher Tyrell

Staff / Personnel
Ms. Laura Anthony, research officer,
Research Services