

ONTARIO LEGISLATIVE COMMITTEE REPORT CALLS FOR MORE TRANSPARENCY

You have it within your power as legislators, within your power as the Legislature, to do this stuff.... The Legislature is to hold the government to account. Peter Weltman, Ontario Financial Accountability Officer.

The new government of Ontario created a special legislative committee to review the previous Liberal government's extraordinary "Fair Hydro" financing scheme and how it understated the true state of the government's deficit and debt.¹ The committee heard from 27 witnesses including key deputy ministers, the auditor General and former premier Wynne. The committee issued its final report last week.²

Background

The large increase in electricity rates in Ontario was caused by a number of factors that are also present in this province, but the effect on rates charged by B.C. Hydro has been mitigated by the abuse of regulatory or deferral accounting. Electricity prices became a major issue in the 2018 provincial election in Ontario that saw the Liberal government relegated to third party status. The suppressed B.C. Hydro prices were not a factor in the 2017 election defeat of the Liberal government in this province although the NDP did highlight affordability as a major plank in its platform.

The committee's summary of the reasons for the growth in electricity prices in Ontario sounds familiar:

There were several key factors driving up hydro rates in Ontario during the fifteen years of the former government. Excessive capacity had been put in place in Ontario. However, due in part to the 2008-09 recession, total demand had fallen significantly and never fully recovered. Also, a large amount of supply put in place in the mid to late 2000s had been contracted. This led to fixed costs that were being covered by a much smaller overall demand in the electricity system. That was a challenge for electricity pricing as the cost in the system was contracted for with the expectation that demand would increase. Finally, the Ontario Power Authority (OPA) and the Independent Electricity System Operator (IESO) began offering long-term contracts for supply. This created fixed costs in the system that required payment regardless of demand.³

¹

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ontario_legislative_committee_11_nov_2018/pdf/commentary_ontario_legislative_committee_11_nov_2018.pdf

² https://www.ola.org/en/legislative-business/committees/financial-transparency/parliament-42/reports/final-report-rapport-final#_Toc1654378

³ Ibid., paragraph 25.

Politics and Electricity Pricing

The committee concluded that the Liberal government had two main objectives for the Fair Hydro plan; to substantially reduce electricity prices and to avoid adding additional debt that would conflict with the plan to achieve a balanced budget by 2017/18.

Directly borrowing the money to fund a rate reduction would have added to the government's debt. Instead an arms-length agency was used to create a regulatory (deferral) account, thereby creating a revenue deferral asset to offset the debt liability. Under the new deferral scheme future generations of ratepayers would subsidize current ratepayers. The scheme heighten the public's distrust in government.

Both the independent financial accountability officer and the auditor general objected to the financing scheme, and Auditor General Lysyk qualified the government's financial statements in part due to the fact that the regulatory accounting scheme did not meet public sector accounting standards.⁴

Uncertainty, Concern and the Granting of Indemnities

In their testimony before the committee many senior public servants stated that they expressed concerns about the deferral accounting approach adopted as a central tenet to the Fair Hydro plan.⁵

Many of the key personal in the arms-length agencies sought and were granted indemnification for their actions in implementing the Fair Hydro financing scheme. Officials of the Ontario Power Generator, for example, "specifically sought an indemnity from the Province in connection with any liability it may owe to the capital markets or bondholders as a result of their part in the creation and execution of this accounting scheme. It also sought a similar waiver from its shareholder, the provincial government, not to pursue any claims against OPG...OPG told the Committee that it felt its involvement in the FHP created an intangible reputational risk to the company."⁶

Adding to the remarkable situation KPMG, the chief financial consulting firm involved in developing the Fair Hydro regulatory accounting model, also demanded and received protection from legal liability as a condition of providing that advice. "The government repeatedly cited KPMG's opinion, which concluded the changes to accounting policies required to execute the Fair Hydro Plan were consistent with

4

http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_43_22_october_2017/pdf/occasional_paper_no_43_22_october_2017.pdf B.C. Auditor General Carol Bellringer also concluded that the accounting standard used at B.C. Hydro did not meet public sector accounting standards.

⁵ https://www.ola.org/en/legislative-business/committees/financial-transparency/parliament-42/reports/final-report-rapport-final#_Toc1654382 paragraph 65 on.

⁶ Ibid., paragraph 91 and 92.

accounting standards, to justify its actions and play down the Auditor-General's concerns."⁷

Recommendations

The legislative committee made a series of recommendations aimed at improving financial transparency. It recommended that the government establish transparency for the taxpayer and general public as the top priority in preparing the budget, public accounts and other financial reports. It also recommended that the government ensure that accounting practices of the government are in accordance with the letter and spirit of Canadian public sector accounting standards.

Summary

The Ontario legislative committee review was an extraordinary event because the government chose to have the review of the previous government's financing scheme conducted by a special committee rather than the existing public accounts committee. It was provided a rare insight into the details of the interaction between the politicians and the political staff and the professional public service in developing public policy. Finally, it was relatively unique in that it had a long list of senior officials, independent legislative officers and the former premier testify.

The new government of Ontario has eliminated the regulatory accounting scheme that was central to the Fair Hydro plan. Instead, it has funded the electricity rate reduction though adding to the government debt.

The new government in B.C. has also recognized that B.C. Hydro's unique accounting practices must end. In mid-February the government announced that B.C. Hydro's 2018/19 financial statements will now conform to Canadian public sector accounting standards, and that the deferral of future uncollected revenue through the "rate smoothing" regulatory account would end.⁸ However, the government retained all of the other deferral accounts and has not restored full rate-setting authority to the independent regulator.

©Richard McCandless April 7, 2019. <http://www.bcpolicyperspectives.com/>

The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

⁷ <https://www.theglobeandmail.com/canada/article-accounting-firm-that-advised-kathleen-wynne-on-fair-hydro-plan/>

⁸

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ndp_five_year_hc_hydro_plan_15_february_2019/pdf/commentary_ndp_five_year_hc_hydro_plan_15_february_2019.pdf

