

NEW ONTARIO GOVERNMENT AGREES WITH AUDITOR GENERAL: FAIR HYDRO DEFERRAL ACCOUNTING NOT APPROPRIATE

One of the first acts of the new Conservative government of Ontario was to appoint a commission, chaired by former B.C. premier Gordon Campbell, to review the province's finances and accounting practices. The commission's report was just released in conjunction with the province's 2017/18 public accounts.¹

The commission's recommendations, which were accepted by the new government, vindicated the position of Auditor General Bonnie Lysyk respecting the inappropriate accounting for certain pension plans and for the government-mandated accounting treatment of the "Fair Hydro" deferral.²

The Commission Report

The commission provided a series of useful recommendations to enhance the public's understanding of the province's finances and to improve the relationship between the government (and its agencies) and the office of the auditor general. It noted that disputes between the government and the auditor general over accounting practices "can erode people's faith in their public institutions."³

The commission stated that enhancing public understanding of, and confidence in, the reliability of fiscal planning and financial reports prepared by the government is critical. "Only a properly informed electorate can hold the government accountable for the decisions it makes. The recommendations in this report are intended to enhance public confidence and establish a baseline understanding of the current fiscal situation."⁴

In addressing the financing of the "Fair Hydro" plan, the commission noted a number of reasons why the complex financing scheme was questionable. It also referenced the lack of approval by an independent regulator in establishing the financing deferral, which was cited by the auditor general when she opposed the accounting treatment of the deferral.⁵

The commission also questioned the cost-effectiveness of the rate deferral financing plan, noting that the refinancing would result in financing costs up to \$4 billion greater than if the government had financed the plan directly. "Financing part of the

¹ <https://www.theglobeandmail.com/canada/article-ontario-deficit-at-15-billion-this-year-pcs-say-not-67-billion/>

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_43_22_october_2017/pdf/occasional_paper_no_43_22_october_2017.pdf

³ <https://www.fin.gov.on.ca/en/report/ifci-2018.pdf> p. 1.

⁴ Ibid., p. 7.

⁵ Ibid., p. 19.

plan at commercial interest rates reduces cost-effectiveness and increases intergenerational inequity. The Commission encourages the government to determine whether it is in the public interest to retain the current design of the Fair Hydro Plan, taking into account the avoidable and significant interest costs, and the costs of any changes.”⁶

The government accepted the commission’s recommendations which increased the 2018/19 projected deficit by \$8.3 billion to \$15 billion. The change in the accounting of the electricity rate deferral added \$2.4 billion to the total.⁷

The End of Manipulation of Electricity Rates?

The acceptance of standard public sector accounting practices by the new Ontario government is welcome. It follows the recent decision by the NDP government in this province to reform the “prescribed” accounting practices at B.C. Hydro following the criticism by Auditor General Carol Bellringer that the deferrals did not conform to public sector accounting principles.⁸

With the adoption of the commission’s recommendations respecting the accounting treatment of pensions and the electricity deferral auditor general Lysyk withdrew her qualifications of the public accounts.

We now await the decision of the B.C. government about the independence of the B.C. Utilities Commission to set B.C. Hydro’s rates and to confirm or wind-up a variety of deferral accounts ordered by the previous government through Directive 7 of 2014. This decision may be announced in conjunction with the results of the recommendations of the senior officials’ review of B.C. Hydro’s finances and rate options.⁹ Minister Mungall promised that the recommendations of the review, together with the government’s comments, would be released this fall before the next rate filing with the B.C. Utilities Commission.¹⁰

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⁶ Ibid., p. 20.

⁷ Ibid., p. 26

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_deferral_reversal_31_august_2018/pdf/commentary_deferral_reversal_31_august_2018.pdf

⁹ This review formed part of the NDP’s 2017 election platform and was announced as part of minister Michelle Mungall’s November 8, 2017, ill-advised rate freeze announcement. The review finally began in June 2018.

¹⁰ <https://news.gov.bc.ca/releases/2018EMPR0041-001156>

