

GLOBE and MAIL REPORT ON HYDRO ACCOUNTING IN ONTARIO

On 21 April 2018 the *Globe and Mail* published Matthew McClearn's "Bad Books: How Ontario's New Hydro Accounting Could Cost Taxpayers Billions."¹ The piece summarizes the effect of the Ontario government's "Fair Hydro" plan, which reduced electricity rates by transferring some costs to the taxpayers and used rate regulated accounting to defer certain costs to future generations of customers.

The Ontario Auditor General has objected to the use of rate regulated (deferral) accounting as it was mandated by government legislation and not by an independent third-party regulator as required by the underlying accounting principle. The Auditor General also objected to the recording of potential future revenue as revenue received.

I reviewed the Ontario situation in:

OCCASIONAL PAPER 31

ONTARIO'S NEW ELECTRICITY PRICE SUBSIDY² (May 2017)

OCCASIONAL PAPER No. 43

WHAT WOULD THE ONTARIO AUDITOR GENERAL MAKE OF BC HYDRO'S 'PRESCRIBED' ACCOUNTING STANDARD?³ (October 2017)

CONTRASTING RESPONSES TO AUDITORS GENERAL OPINIONS ON USE OF DEFERRAL ACCOUNTING IN ONTARIO AND BRITISH COLUMBIA⁴ (March 2018)

The McClearn article includes aspects of the testimony of senior Ontario public servants at the 28 February 2018 public accounts committee hearing. At issue was why the

¹ <https://www.theglobeandmail.com/canada/investigations/article-bad-books-how-ontarios-new-hydro-accounting-could-cost-taxpayers/>

²

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_31_26_may_2017/pdf/occasional_paper_no_31_26_may_2017.pdf

³

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

⁴

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_accounting_28_march_2018/pdf/commentary_accounting_28_march_2018.pdf

Independent Electricity System Operator (IESO) adopted rate regulated accounting in early 2017 after purposefully rejecting deferral accounting in 2015.

The report also raises an ethical question as to accounting/consulting firms advocating for an accounting treatment while contracted to audit the client's finances. The article quoted forensic accountant Al Rosen as saying that because accounting standards are so elastic it is relatively easy to hire consultants to provide favourable accounting opinions. "You can go to any of the public accounting firms and get them to render an opinion on whatever you want... The ethics have gone all to hell."⁵

The article noted that the Ontario Auditor General now has less trust in the external auditors of some of the Crown corporations, and conducted a special audit of the IESO's books. This met with resistance at the IESO. Carol Bellringer, the BC auditor General, is gearing-up to take over the role of the external auditor for BC Hydro by 2019/20.⁶

Perhaps another group of financial monitors will also be discredited by the fall-out of the regulatory accounting in Ontario and BC. The bond rating agencies have been relatively compliant in BC in retaining the province's strong credit score despite the rapid growth in BC Hydro's debt and the net balance of deferred costs and revenues. For 2016/17 the net deferral assets represented 114% the corporation's equity.⁷

In Ontario, the Liberal government's pre-election budget plans on major new operating deficits, after the Fair Hydro plan was designed to fulfill the earlier pledge of achieving operating surpluses. Moody's Financial, ignoring the Fair Hydro accounting sleight of hand, could only lower Ontario's "outlook" on the news of new planned deficits.⁸

The main opposition parties in Ontario have not announced plans to repeal the deferral accounting portion of the electricity rate reduction plan. In BC, the new NDP government has promised a review of the weak finances of BC Hydro, but a major roll-back in the use of deferral accounting seems unlikely. The mis-step respecting the planned deferral of the foregone revenue from the 3% rate freeze suggests that the government may have succumbed to the lure of rate regulated accounting to boost current year results at the expense of the future ratepayers.

©Richard McCandless April 22, 2018. <http://www.bcpolicyperspectives.com/>

⁵ <https://www.theglobeandmail.com/canada/investigations/article-bad-books-how-ontarios-new-hydro-accounting-could-cost-taxpayers/>

⁶ <http://vancouversun.com/opinion/columnists/vaughn-palmer-bellringer-anxious-to-plug-into-b-c-hydros-accounts>

⁷ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/bchydro-2016-17-annual-service-plan-report.pdf>

⁸ <http://business.financialpost.com/news/economy/ontario-government-financial-outlook-changed-to-negative-moodys>