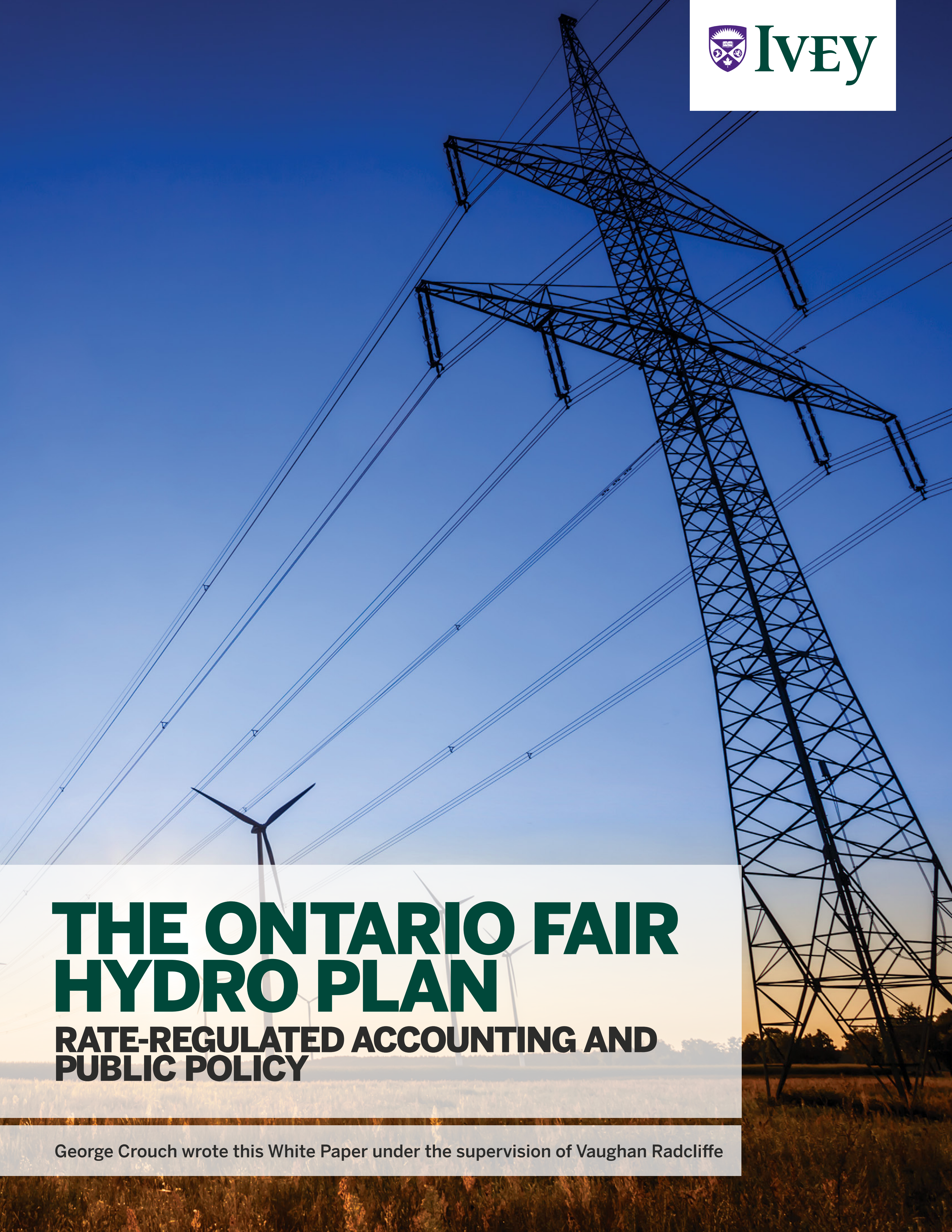

THE ONTARIO FAIR HYDRO PLAN

RATE-REGULATED ACCOUNTING AND PUBLIC POLICY

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EXECUTIVE SUMMARY

Electricity rates are a politically contentious issue in Ontario. Successive governments have attempted to reduce them since the turn of the twenty-first century.

In 1997, it was announced that the market would be deregulated and exposed to competition in order to reduce costs for consumers. The introduction of competition in the Ontario electricity market (2002) did not extend far enough to encourage the private sector to build new long-term generation capacity. The government of the day stepped in and created the Ontario Power Authority to procure generation capacity. Over the following decade, unexpectedly low demand and a shift from coal-fired generation to renewable generation, caused fixed costs to increase due to heavy investment in renewable power sources which drove prices higher. Higher prices caused political controversy as Ontarians, already saddled with record-high household debt, were asked to pay more.

In 2017, the Liberal government announced the Fair Hydro Plan in an effort to reduce electricity prices. This plan aimed to reduce consumer hydro rates by 17 per cent. The plan relied on rate regulated accounting to shift the cost of this subsidy onto future ratepayers. The Auditor General of Ontario and the Financial Accountability Office objected to this accounting treatment because they believed that pushing costs into the future was an inappropriate accounting treatment and did not fairly present these transactions. The government, relying on advice from accounting and consulting firms, ignored these objections and attempted to cast the issue as a technical debate among accountants.

In 2018, a new Progressive Conservative government was elected, and in May 2019, they passed the "*Fixing the Hydro Mess Act, 2019*" which moved the funding for subsidies from future ratepayers to future taxpayers, without reducing the subsidies. The remaining elements of the Fair Hydro Plan structure will be wound down over time.

The changes in financing structure made by the current Ontario government are unquestionably an improvement in the accounting treatment of electricity rate subsidies, as they bring practice in line with the recommendations of Ontario's Auditor General and Financial Accountability Office. However, the use of debt financing to fund subsidies continues to shift current operating expenses into the future. The key question is who should pay for the cost of the electricity currently being used in the province: current ratepayers, future ratepayers, current taxpayers, or future taxpayers?

The Ontario government's 2017 Fair Hydro Plan[1] responded to a crisis in Ontario's electricity market that had been many years in the making. Changes in the structure of the market and in the form of Ontario's electricity supply had changed cost structures; changes that had been passed on to customers in the form of rapidly rising utility rates. These rising rates had become a source of consternation across the province. This paper traces the history that brought Ontario to this point, and examines the latest reforms from the Ford government aimed at "fixing the hydro mess".[2] [3]

We begin with a brief history of the Ontario electricity market.

1 Ontario Fair Hydro Plan Act, 2017, S.O. 2017, c. 16, Sched. 1

2 *Fixing the Hydro Mess Act*, *2019* is the short title for *An Act to Amend Various Statutes Related to Energy*, S.O. 2019, c. 6 (see s. 3).

3 We are grateful to Don MacDonald for comments on an earlier draft of this paper. Taxation issues are beyond the scope of this piece but there are tax considerations in the structuring and impact of the Fair Hydro plan, especially in its interaction with local utilities.

PART ONE: HISTORY OF THE ONTARIO ELECTRICITY MARKET

In 1905, disruptions to the coal supply in Ontario caused by labour actions in Pennsylvania caused escalating energy prices. In order to provide cheaper energy, the government of Ontario formed the Hydro-Electric Power Commission of Ontario to exploit the opportunities offered by Niagara Falls for power generation.[4] Hydro-electric power became the early focus of Ontario's electricity supply. Despite diversification into coal, gas, nuclear, wind, and solar generation over the next century, the term 'hydro' remains popular shorthand in Ontario for electric power from any source. Ontario Hydro (as the Commission was later renamed) became the Crown corporation solely responsible for generating, transmitting, and distributing power throughout Ontario. In 1997, the provincial government under Premier Mike Harris announced that the electricity market in Ontario would be restructured[5] and exposed to competitive forces in an effort to increase efficiency. Ontario Hydro was to be broken up into Hydro One (a transmitter and distributor), Ontario Power Generation (a generator), and several smaller entities. Ontario Power Generation would now compete with other generators to provide the supply of commodity electricity. The transition was completed and the market opened on May 1, 2002.[6] That summer, rapidly rising prices caused the Ontario government to freeze prices charged to ratepayers until May 2005. The government subsidized the difference between the market price and this artificially low price ceiling.[7] To address the excess demand driving the price increases, the government created the Ontario Power Authority (OPA) to take care of long-term planning for the electricity system and to procure long-term contracts for new power generation capacity.

The Introduction of Competition

As part of the introduction of competitive forces, Ontario chose to open both its wholesale and retail markets to competition simultaneously. This decision necessitated the "unbundling" of the retail electricity bills to expose the various competitive and non-competitive components. The competitive component was the commodity price for electricity, and the non-competitive components were the delivery charge, the regulatory charge, and taxes.

The Global Adjustment Charge

As the OPA proceeded in its mandate to deliver new generation capacity, the cost of funding this new capacity had to be captured on power bills, so a new charge was introduced—the Global Adjustment (GA) fee. Since then, Ontario electricity bills have two primary commodity-related components: the Hourly Ontario Energy Price (HOEP) and the GA. The HOEP is the wholesale spot price of electricity supplied to the electrical grid (more of a marginal price than an average cost). The GA is a surcharge added to rates to make up the difference between wholesale prices and the long-term contract rates guaranteed to producers, along with other program costs related to government interventions

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4 James H. Marsh, "Adam Beck and the Creation of Ontario Hydro," *The Canadian Encyclopedia*, February 10, 2011, accessed November 6, 2018, **http://www.thecanadianencyclopedia.ca/en/article/adam-beck-and-the-creation-of-ontario-hydro-feature**.

5 J.R. Whiteway, "Ontario Hydro," *The Canadian Encyclopedia*, February 7, 2006, accessed November 6, 2018, **http://www.thecanadianencyclopedia.ca/en/article/ontario-hydro**.

6 Office of the Auditor General of Ontario, *Annual Report 2017*, Chapter 3, Section 3.06, "Independent Electricity System Operator – Market Oversight and Cybersecurity," 2017.

7 Ibid. [Office of the Auditor General of Ontario, *Annual Report 2017*, Chapter 3, Section 3.06, "Independent Electricity System Operator – Market Oversight and Cybersecurity," 2017.]

in the market. Exhibits 1 and 2 show the projected and the actual impact of renewable power policies on the GA. The growing dominance of the GA as a proportion of the price of electricity means that lowering the wholesale price is no longer material to lowering the overall cost.

Generation Capacity versus Generation Production

To understand the escalation of the GA, it is important to recognize some of the major cost drivers in the electricity market. The difference between generation capacity and production is central to this issue: The push into renewable energy sources was framed in terms of bringing on generation capacity (in megawatts; see Exhibit 3). Energy production (in kilowatt hours) is essentially capacity multiplied by utilization. Utilization is the ratio of the number of hours that a facility produces power in a given period divided by the number of hours in that period. It can easily be observed that the sun does not always shine and that the wind does not always blow, which limits the utilization of solar and wind generation resources. Other plant types (e.g., gas, coal, nuclear, hydro) also suffer downtime—for maintenance, low demand, and other factors—but typically feature much higher utilization than wind and solar assets, which have been purchased heavily by the OPA, beginning in 2012, through the Feed-in Tariff program.

Generation assets that feed into the electricity grid irregularly have to be supported by alternate capacity that can be turned on on-demand to balance such fluctuations. It is the function of the Independent Electricity System Operator (IESO), a Crown corporation managing Ontario's power system, to balance the system in real time. This capacity is often provided by gas generators, as they can spin-up (come online) faster than other generators. This relationship essentially forces the system (through the OPA) to procure capacity twice in many cases. (See Exhibit 4 for a comparison between capacity mix and actual generator production mix.)

The Province of Ontario's Debt Rating

The province of Ontario regularly accesses capital markets to finance programs and investments and so the provincial debt rating is an ongoing concern. Changes in the debt rating can negatively impact the cost of financing the provincial debt. In July 2015, the province of Ontario's debt rating was downgraded by Standard & Poor's (S&P) from AA– to A+ (while the Fitch Rating was left at AA-).[8] The S&P downgrade was caused by the province's heavy debt load, and it impacted the borrowing costs available to the government and attracted criticism from many quarters, including the Opposition.[9] In response to criticisms the Honourable Charles Sousa, Minister of Finance, responded with the commitment that "Ontario will continue to address the deficit, we'll continue to stimulate the economy and we will balance [the budget] by 2017–18."[10]

8 The Canadian Press, "S&P, Fitch Downgrade Ontario Credit Rating over Budget 'Underperformance,'" CBC, July 8, 2015, accessed November 7, 2018, **http://www.cbc.ca/news/canada/toronto/ontario-credit-rating-downgraded-by-s-p-fitch-over-budget-underperformance-1.3140921**.

9 Ben Eisen and Charles Lammam, "Ontario Credit Downgrade Yet another Sign for Fiscal Policy Change: Op-ed," Fraser Institute, May 2, 2018, accessed November 7, 2018, **http://www.fraserinstitute.org/article/ontario-credit-downgrade-yet-another-sign-fiscal-policy-change**.

10 Hansard Reporting and Interpretation Services, *Legislative Assembly of Ontario, First Session, 41st Parliament, Official Report of Debates (Hansard)*, 5054, September 15, 2015, Ontario Legislative Assembly, accessed November 6, 2018, **http://www.ola.org/sites/default/files/node-files/hansard/document/pdf/2015/2015-09/house-document-hansard-transcript-1-EN-15-SEP-2015_L095.pdf**.

Escalating Electricity Prices

Environmental and public health concerns had led the Ontario government to phase out all coal-fired generation stations by 2014.[11] This transition was enabled by a government-sponsored boom in renewable power and the development of several gas generation plants (see again Exhibit 3). Due to these changes, among other factors, and despite the Minister of Finance's 2015 declaration, there was a 15-per-cent price increase in retail electricity prices between 2015 and 2016[12] and by 2016 retail electricity prices in Ontario had risen 92 per cent[13] from 2007 levels.

The 2016 higher prices had disparate impacts on the various electricity ratepayers of Ontario: industrial users, rural households, and urban households. Rising industrial electricity prices hit energy-intensive sectors exceptionally hard and were among the factors that led to a 32-per-cent decrease in pulp and paper production and a 25-per-cent reduction in iron and steel production in the province between 2010 and 2016.[14] During this period, rates for urban householders rose rapidly in Ontario (for example, 46 per cent in Toronto and 53 per cent in Ottawa) even as rates fell in some other jurisdictions.[15]

By 2017, Ontario had the highest residential electricity costs among Canadian provinces,[16] with the average Toronto resident paying CA$720.00[17] per year more than the average Canadian, and having the third-highest average bills in North America.[18] In rural areas, many of which were without access to natural gas heating, a greater proportion of Ontarians relied on electric heating for their homes. In these areas, a usage of 1,000 kilowatt hours a month could result in an electricity cost of $3,105.84 annually.[19] While facing increases in electricity costs, Ontarians also faced disappointing wage growth, of only 3.8 per cent over 2005–2015.[20] With provincial average household debt levels at 173 per cent of household income,[21] any change was material for highly leveraged households. A rate history from 2006 to 2018 is presented in Exhibit 5.

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11 Office of the Auditor General of Ontario, *Annual Report 2011*, Chapter 3, Section 3.03, "Electricity Sector-Renewable Energy Initiatives," 2011.

12 Taylor Jackson, Ashley Stedman, Elmira Aliakbari, and Kenneth P. Green, *Evaluating Electricity Price Growth in Ontario*, Fraser Institute, 2017.

13 Based on a weighted average of the increases in on-peak, mid-peak, and off-peak rates; "Historical Electricity Rates," Ontario Energy Board, accessed 2018-12-21, **http://www.oeb.ca/rates-and-your-bill/electricity-rates/historical-electricity-rates**.

14 Elmira Aliakbari, Kenneth P. Green, Ross McKitrick, and Ashley Stedman, *Understanding the Changes in Ontario's Electricity Markets and Their Effects*, Fraser Institute, April 12, 2018.

15 Ibid. [Elmira Aliakbari, Kenneth P. Green, Ross McKitrick, and Ashley Stedman, *Understanding the Changes in Ontario's Electricity Markets and Their Effects*, Fraser Institute, April 12, 2018.]

16 Taylor Jackson, Ashley Stedman, Elmira Aliakbari, and Kenneth P. Green, op. cit.

17 All dollar amounts are in Canadian dollars.

18 Jackson, Stedman, Aliakbari, and Green, op. cit.

19 Ashley Csanady and Monika Warzecha, "Who Pays the Most—and the Least—for Power in Ontario? Hydro One, Toronto Hydro among Priciest," *Financial Post*, October 25, 2016, accessed November 6, 2018, **https://business.financialpost.com/commodities/energy/who-pays-the-most-and-the-least-for-power-in-ontario-hydro-one-toronto-hydro-among-priciest**.

20 Statistics Canada, "Household Income in Canada: Key Results from the 2016 Census," news release, September 13, 2017, accessed November 6, 2018, **https://www150.statcan.gc.ca/n1/daily-quotidien/170913/dq170913a-eng.htm**.

21 Government of Ontario, "A Strong and Fair Ontario: 2017 Ontario Economic Outlook and Fiscal Review," news release, 2017, accessed November 6, 2018, **http://www.fin.gov.on.ca/en/budget/fallstatement/2017/ecotables.html**.

PART 2: CLEVER ACCOUNTING AND CONTROVERSY

Public Outcry and The Accounting Solution

Throughout 2016[22] and 2017, the price of electricity became an increasingly important political issue.[23] The governing Liberal Party was beginning to feel the pressure from its electorate. On March 2, 2017, the party announced the Fair Hydro Plan to relieve the pressure on ratepayers.[24] This plan sought to reduce consumer hydro rates by 17 per cent, or 25 per cent in combination with previously announced relief from provincial sales tax. For a government facing an impending election that would surely be hotly contested, this was an important policy initiative on a burning political issue of the day.

Fair Hydro Plan

Reducing the cost of electricity could not be free. To fund the Fair Hydro Plan meant subsidizing the real costs to ratepayers of the electricity they were consuming: the provincial government needed to borrow additional funds to cover the shortfall between costs and consumer prices (see Exhibit 6). Under the Fair Hydro Plan, however, the government sought to deliver this price relief without adding substantially to the provincial debt.

The Fair Hydro Plan hinged on the creation of "regulatory assets." These assets were a right to collect an amount of cash in the future through charges to future ratepayers (see Exhibit 7). This was justified as the use of "rate-regulated accounting," which had been in use in various forms for decades.

22 "'People Have to Choose between Heating and Eating': Rising Hydro Costs Hit Ontarians," CBC, September 1, 2016, accessed November 7, 2018, **http://www.cbc.ca/radio/thecurrent/the-current-for-september-1-2016-1.3744010/people-have-to-choose-between-heating-and-eating-rising-hydro-costs-hit-ontarians-1.3744013**; Geoff Zochodne, "Ontario Household Electricity Prices to Rise 52 per Cent from 2017 to 2035," October 26, 2017, accessed November 7, 2018, **https://business.financialpost.com/commodities/energy/ontario-household-electricity-prices-to-rise-52-per-cent-from-2017-to-2035**.

23 Antonella Artuso, "High Hydro Rates Killed Ontario Jobs: Study," *Toronto Sun*, October 19, 2017, accessed November 7, 2018, **https://torontosun.com/news/provincial/high-hydro-rates-killed-ontario-jobs-study**.

24 Office of the Premier, "Ontario Cutting Electricity Bills by 25 Per Cent: System Restructuring Delivers Lasting Relief to Households across Province," Ontario Government, news release, May 11, 2017, accessed November 6, 2018, **https://news.ontario.ca/mndmf/en/2017/05/ontario-cutting-electricity-bills-by-25-per-cent.html**.

Rate-Regulated Accounting

In order to reduce consumer electricity prices without showing an increase in provincial debt, the Fair Hydro Plan applied the concept of rate-regulated accounting as found in United States generally accepted accounting principles (GAAP) standards. The Ontario government statement laid out its reasoning as follows:[25]

> In appropriate circumstances, rate-regulated entities establish regulated assets or liabilities and thereby defer the impact on the statement of operations of certain expenses or revenues because it is preferable that the expenses or revenues will be collected or refunded to market participants through future billings. The accounting guidance applied is U.S. generally accepted accounting principles Topic 980, Regulated Operations. The entities applying rate-regulated accounting reflected in this plan are both Government Business Enterprises recognized using the modified equity method (Hydro One Ltd. And Ontario Power Generation Inc.) and government organizations consolidated on a line-by-line basis (Independent Electricity System Operator).

Rate-regulated accounting is an established practice in U.S. GAAP and used by utilities across North America in various forms. It continues to be used by major private rate-regulated entities in Canada including TransCanada Corporation and Enbridge Inc.[26] Private rate-regulated entities cross-listed in the United States and Canada had the option to adopt International Financial Reporting Standards (IFRS) or U.S. GAAP standards, and, in most cases, opted for the latter. The method was usually used to smooth results over several periods when an exceptional cost or windfall revenue occurred. These were distributed over future periods as credits or costs. Excerpts from Financial Accounting Standards Board [FASB] guidance on rate-regulated activities is included in Exhibit 8. The crux of the Fair Hydro Plan debate was whether the accounting treatment was relevant or appropriate to the structure created by the Ontario government to finance the 2017 rate reduction program. The Fair Hydro Plan debate was accompanied by a separate debate on whether subsidies to lower electricity prices were good policy, regardless of how they were funded or financed.

The Ontario government, like all other publicly accountable enterprises in Canada, followed IFRS accounting standards.[27] These standards did not contain any allowance for rate-regulated accounting, although such a provision had been considered for the IFRS in 2011[28] but was subsequently abandoned. In July 2018, the International Accounting Standards Board (IASB) was drafting new guidance on the issue, which had not yet been released.[29] For this reason, the Ontario government relied on the U.S. GAAP standards to justify the structure it had chosen.

This was not the first time an Ontario government had attempted to use this method of accounting to create an asset in the electricity industry. In the late 1990s, when Ontario Hydro was being broken up, the government of the day had

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25 Ontario Ministry of Finance, 2018 Pre-Election Report on Ontario's Finances. Queen's Printer for Ontario 2018. **https://files.ontario.ca/preelectionreport-2018-en_0.pdf**.

26 TransCanada, *Annual Report 2017*, February 2018, accessed 2018-12-21 , **http://www.transcanada.com/globalassets/pdfs/investors/transcanada-annual-report.pdf**; Enbridge Income Fund Holdings, *2017 Annual Report*, 2018, accessed2018-12-21, **http://www.enbridgeincomefund.com/~/media/Income%20Fund/PDFs/Reports/2018/2017_EIFH_AnnualReport.pdf**.

27 Canada Revenue Agency, "International Financial Reporting Standards (IFRS)," Government of Canada, February 21, 2017, accessed November 7, 2018, **http://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/international-financial-reporting-standards-ifrs.html**.

28 "International Financial Reporting Standards and Rate-Regulated Industries - Closing the Gap through U.S. GAAP," Osler, accessed November 7, 2018, **http://www.osler.com/en/resources/governance/2011/corporate-review-march-2011/international-financial-reporting-standards-and-ra**.

29 "Rate-regulated Activities," IFRS, accessed November 7, 2018, **http://www.ifrs.org/projects/work-plan/rate-regulated-activities/**.

attempted a similar rate-regulated accounting maneuver.[30] At that time, the Auditor General's opinion was that this "would have set an unacceptable precedent for government accounting. It would also have represented a departure from one of the central tenets of generally accepted accounting principles—that revenue not be recognized until it is earned."[31]The government took the Auditor General's advice and did not create the regulatory asset,[32] instead housing the $20.9 billion in stranded debt in the newly created Ontario Electricity Financing Corporation and paying it down over time through a "debt retirement charge" on consumers' electricity bills.[33] In effect local utilities were forced to pay a tax to fund the stranded debt receivable in distribution rates.

Financial Accountability Office of Ontario Response

The Financial Accountability Office of Ontario (FAO) was established in 2013 to provide independent analysis of the province of Ontario's finances, trends in the provincial economy, and cost–benefit analysis of proposed provincial bills.[34] Its financial accountability officer serves as an officer of the provincial assembly, not under the government of Ontario.

In spring 2017, the FAO published a report on Ontario's Fair Hydro Plan. This report estimated that the cost to Ontarians of the Fair Hydro Plan over the next 29 years would be $21 billion, largely in additional financing costs. This would rise to $45 billion–$69 billion if the program required the province to raise additional debt to finance the program. Exhibit 9 shows the estimated impact on ratepayers' costs over the life of the program.

In addition to criticizing the costs of the program, the FAO was uncertain about the appropriateness of the accounting standards being used and presented the following recommendation:

> Due to the nature of the proposed financing transaction, the FAO recommends that Members of Provincial Parliament (MPPs) obtain assurance from the Office of the Auditor General of Ontario (OAGO) that the Province's proposed accounting treatment for the electricity cost refinancing meets public sector accounting standards and will not impact the Province's annual surplus/deficit and net debt.[35]

Ontario Auditor General Response

The history of the Office of the Auditor General of Ontario (OAGO) started in 1869 with the creation of an Audit department within the Treasury (which was the antecedent to the modern Ministry of Finance). Following the discovery of $14,000 in irregularities in government accounts in 1885, the auditor was made independent of the government through the *Audit Act* of 1886.[36] The OAGO began issuing annual reports in response to the government's budget in

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30 Bonnie Lysyk, "Remarks by Auditor General Bonnie Lysyk to The Standing Committee on Justice Policy on Bill 132 *Ontario Fair Hydro Plan Act*, 2017," Office of the Auditor General of Ontario, May 24, 2017, accessed 2018-12-21 , **http://www.auditor.on.ca/en/content/news/remarks_standing%20committee%20on%20justice%20policy.pdf**.

31 Office of the Auditor General of Ontario, *2000 Annual Report*, 2001.

32 Bonnie Lysyk, op. cit.

33 Keith Leslie, "Hydro Debt Retirement Charge Costs Ontarians $11.5B," *The Toronto Star*, April 5, 2015, accessed November 7, 2018, **http://www.thestar.com/news/canada/2015/04/05/hydro-debt-retirement-charge-costs-ontarians-115b.html**.

34 "About," Financial Accountability Office of Ontario, accessed November 7, 2018, **http://www.fao-on.org/en/about**.

35 Financial Accountability Office of Ontario, *Fair Hydro Plan: An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan* (Toronto, ON: the Queen's Printer for Ontario, 2017).

36 "History of Our Office," Office of the Auditor General of Ontario, accessed November 7, 2018, **http://www.auditor.on.ca/en/content/aboutus/historyofouroffice.html**.

1909, to detail any discrepancies between the government's accounting and the Auditor's professional opinion of the books. In the century that followed, the OAGO became increasingly independent and expanded its activities to include program evaluation and value-for-money analysis of government programs.

In October 2017, the OAGO published a special report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money*. In this report, the Auditor summarized the concerns by stating:

> The substance of the issue is straightforward. Ratepayers' hydro bills will be lower than the cost of the electricity used as a result of the electricity rate reduction. However, power generators will still be owed the full cost of the electricity they supply, so the government needs to borrow cash to cover the shortfall to pay them.[37]

The report estimated that the Fair Hydro Plan program would require borrowing $18.4 billion and eventual interest payments of $21 billion.[38] It further questioned the appropriateness of the accounting treatment used, saying, "Our concerns are that the planned accounting for the government's budgets and consolidated financial statements is incorrect, and that it was known that the planned financing structure could result in significant unnecessary costs for Ontarians."[39] The OAGO's analysis of the hidden expense is shown in Exhibit 10, showing its corrected revenue and expense projections.

The Reaction of the Government of Ontario

The OAGO had been engaged in an unusual level of conflict with the Ontario government over the past few years.[40] The OAGO had issued recommendations on: the statement of assets from the Ontario government's jointly sponsored pension funds (Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan) in the government's statement of accounts, the Fair Hydro Plan, and other smaller issues. The provincial government's response had been largely hostile, and the government had sought outside consultation to support its treatment. This resulted in the auditor issuing only a qualified opinion on the 2015–2016 and 2016–2017 provincial books.[41]

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37 Office of the Auditor General of Ontario, *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*, 6, October 2017.

38 Op. cit., 8.

39 Ibid. [Op. cit., 8].

40 Independent Financial Commission of Inquiry, *Report of the Independent Financial Commission of Inquiry*, 7, 11, 2018, accessed 2018-12-21, **http://www.fin.gov.on.ca/en/report/ifci-2018.pdf**.

41 Ibid. [Independent Financial Commission of Inquiry, *Report of the Independent Financial Commission of Inquiry*, 7, 11, 2018, accessed, **http://www.fin.gov.on.ca/en/report/ifci-2018.pdf**.]

Honourable Glenn Thibault, Minister of Energy, stated, in response to the OAGO concerns about the Fair Hydro Plan,

> Let me be clear, and let's talk about what two world-class accounting firms had to say in statements about rate-regulated accounting within the public sector accounting standards. KPMG said, "On the basis of our extensive research, deliberations and an opinion from another major accounting firm, we believe that the accounting policies adopted by [the] IESO are in accordance with Canadian public sector accounting standards." Deloitte "concluded that any regulatory assets and liabilities recognized through the appropriate application of these policies would meet the criteria for recognition" under the Canadian public sector accounting standards. Additionally, Ernst & Young is OPG [Ontario Power Generation]'s financial auditor and is consulted on an ongoing basis.[42]

The province and the private sector consulting firms it had retained to work on structuring the program maintained that the OAGO's concerns constituted merely a professional dispute between accountants, with KPMG spokesperson Lisa Papas quoted as saying, "The concerns expressed by the AGO [auditor general's office] result from a difference of opinion in the application of professional judgement."[43] This led an opposition politician, Progressive Conservative MPP Randy Hillier, to comment, "With half a million dollars or more in advisory fees, there might be a reasonable expectation, you might say, that [KMPG's] ability to be impartial and effective auditors had become compromised."[44]

Opposition Parties' Responses

The Progressive Conservative Party and the New Democratic Party, the two opposition parties in the legislature, both strongly condemned the government's accounting practice and response to independent institutions, with Patrick Brown, leader of the Progressive Conservative Party, saying, "It's the Liberal way or the highway. They're actually burying, hiding the costs of their so-called fair hydro plan in OPG's budget, so they don't have to include it in the books this year."[45]

Paul Miller, a member of the New Democratic Party, stated,

> So what is advertised as a fair hydro plan is actually a piece of financial engineering that incurs massive off-books borrowing to solve a short-term political problem for the Liberals, and then securitizes part of Ontario's hydro bills the next 30 years in order to repay it. It's a Trojan Horse, Speaker [of the Legislative Assembly of Ontario]. How does this government dare to ram this outrageous piece of legislation through the House without proper public consultation, without adequate public input, without independent scrutiny and without a rigorous assessment by the FAO?[46]

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42 Hansard Reporting and Interpretation Services, op. cit., 824.

43 Matthew McClearn, "Bad Books: How Ontario's New Hydro Accounting Could Cost Taxpayers Billions," *The Globe and Mail*, May 3, 2018, accessed November 7, 2018, **http://www.theglobeandmail.com/canada/investigations/article-bad-books-how-ontarios-new-hydro-accounting-could-cost-taxpayers/**.

44 Matthew McClearn, "Auditor-General Blasts 'Bogus' Hydro Accounting Strategies in Ontario," *The Globe and Mail*, March 26, 2018, accessed November 7, 2018, **http://www.theglobeandmail.com/canada/article-auditor-general-blasts-bogus-hydro-accounting-strategies-in-ontario/**.

45 Hansard Reporting and Interpretation Services, op. cit., 4286.

46 Hansard Reporting and Interpretation Services, op. cit., 4408.

PART 3: CHANGE OF GOVERNMENT, CHANGE OF ACCOUNTING

A New Government

On June 7, 2018, Ontario's electorate returned a Progressive Conservative majority government with 76 seats in the Legislative Assembly (40.49 per cent vote share), 40 seats for the New Democratic Party (33.57 per cent vote share), one for the Green Party (4.6 per cent vote share), and a mere 7 seats (19.59 per cent vote share) for the Liberal Party.[47] This crushing defeat for the previous government set the stage for future policy changes. One of the incoming government's campaign promises was to reduce hydro prices by a further 12 per cent.[48]

In March 2019, the Legislative Assembly of Ontario's Select Committee on Financial Transparency, which was struck following the election "to investigate and report on the accounting practices, decision making and policy objectives of the previous government…", issued a report.[49]

On May 9th, 2019 the new Ontario Government received royal assent for "Bill 87: Fixing the Hydro Mess Act".[50] This act amends the Ontario *Energy Board Act* (1998), the *Electricity Act* (1998), the Ontario *Rebate for Electricity Consumers Act* (2016), and the Ontario *Fair Hydro Plan Act* (2017).[51] The new bill prohibits the Fair Hydro Trust from any further borrowing[52], and allows for repayment of current obligations as they come due.[53] The new bill is intended to ensure that these obligations will "be paid for out of money appropriated for the purpose by the Legislature instead of being recoverable [from future ratepayers] through billings".[54] This legislation shifts the burden of subsidies to hydro rates onto the tax base, see Exhibit 11. The government has undertaken to maintain the current level of subsidy and promises "to work to lower electricity rates by 12 percent."[55]

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47 "Ontario Election Results 2018: A Map of the Results," *The Globe and Mail*, June 8, 2018, accessed November 7, 2018, **http://www.theglobeandmail.com/canada/article-ontario-election-results-2018-a-map-of-the-live-results/**.

48 Robert Benzie, "Ford Promises Additional 12% Cut to Hydro Bills," *The Toronto Star*, April 27, 2018, accessed November 7, 2018, **http://www.thestar.com/news/queenspark/2018/04/27/ford-promises-additional-12-cut-to-hydro-bills.html**.

49 Ontario. Select Committee on Financial Transparency. Final Report. (March 2019), **https://www.ola.org/sites/default/files/node-files/committee/report/pdf/2019/2019-03/SCFT%20Final%20Report%20%28Web%29%20English.pdf**.

50 See note 2 above.

51 Bill 87, An Act to amend various statutes related to energy, 1st sess., 42nd Legislature, 2019. **https://www.ola.org/en/legislative-business/bills/parliament-42/session-1/bill-87**

52 Bill 87, An Act to amend various statutes related to energy Section III, 13, pg 23, 1st sess., 42nd Legislature, 2019. **https://www.ola.org/en/legislative-business/bills/parliament-42/session-1/bill-87**

53 Bill 87, An Act to amend various statutes related to energy Section III, 15, pg 23, 1st sess., 42nd Legislature, 2019. **https://www.ola.org/en/legislative-business/bills/parliament-42/session-1/bill-87**

54 Bill 87, An Act to amend various statutes related to energy: Explanatory Note, 1st sess., 42nd Legislature, 2019. **https://www.ola.org/en/legislative-business/bills/parliament-42/session-1/bill-87**

55 Government of Ontario. Ministry of Energy, Northern Development and Mines. "Ontario Takes Important Step Forward to Fix Hydro Mess." News release, May 9, 2019. Ontario Newsroom. Accessed June 27, 2019. **https://news.ontario.ca/mndmf/en/2019/05/ontario-takes-important-step-forward-to-fix-hydro-mess.html**.

PART 4: THE ROLE FOR CPAS

CPAs have a role in informing debate on contemporary issues in society, especially ones with financial consequences for important matters of public policy. Fair Hydro is one such case. The fact of the matter is that the Province of Ontario is borrowing billions of dollars to pay the current electrical utility costs of Ontarians, and this is adding to the provincial debt load which is already at a record high. The province's tax revenues are insufficient to pay for its regular services, and now provincial debt is being used to underpin the utility costs of households across the province. This hides the true cost of electricity from Ontarians for a time and passes these costs, with accumulated interest, to future generations. This will further weaken the provincial balance sheet and limit the province's financial flexibility, limiting its ability to deliver programs to Ontarians in future years because of resources expended in shielding Ontarians from the current costs of electricity.

As accountants CPAs have unique insights into the weaknesses of this approach. They can see the downstream consequences of policies that push current expenses into future periods and do so utilizing additional debt financing. Borrowing may make sense for a long-term investment opportunity or for an asset that might appreciate in value, but here the borrowing is being used to punt the utility expenses of daily living into future periods. There is no long-term benefit that accrues from this program.

One role of CPAs can be in helping to inform debate of Fair Hydro as a matter of public policy. It is not clear that all legislators fully grasp the consequences of these policies or understand the heavy costs that are being imposed on Ontarians as a result of them. Another role is in educating Ontarians themselves. Younger Ontarians in particular need a shot of financial literacy to understand how complex financial engineering was brought to bear in a program that in effect stands to hand them the bill for hydro decades from now. There are ethical components to this question as well. Is it ethical to engage in an intergenerational shifting of these utility costs, and to pass the burden of Fair Hydro liabilities on to future generations? There are CPAs who are teaching in colleges and universities. They could use this case to illustrate the way in which accountants would tend to see through financial engineering and get to the heart of its consequences, to see the real effects of these practices and understand the costs and benefits of these schemes in terms of their impacts on the financial statements. Ontario is the only jurisdiction in North America which has a program like Fair Hydro that is tacking on electricity costs onto the public debt load. Why is this? The former government touted Fair Hydro as an ingenious approach that would bring much needed relief to Ontarians from punishingly high electricity bills. The ministers of the day did not encourage much examination of the fine print, nor of the interest costs associated with the Fair Hydro trust.

The CPAs that have been most publicly involved with Fair Hydro to date are the members of the Office of the Auditor General of Ontario. They have used their expertise and the unique authority and role of their Office to highlight the pitfalls that Fair Hydro has presented. They have reported extensively on the difficulties of the Fair Hydro program and the liabilities that have been accrued by Fair Hydro as it has progressed. This has been a test of the Office that has exposed it to controversy as the former government was very committed to seeing Fair Hydro through and believed that lowering hydro prices was crucial to its re-election prospects. The Office of the Auditor General showed independence of mind in pursuing these matters single-mindedly and showed the independence that is associated with CPAs in doing so. They need to continue to report on this program and to keep track on its results so that Fair Hydro is not just buried and forgotten in the provincial accounts but that Ontarians understand what is being done with their money. Money that is spent on Fair Hydro interest costs cannot be spent on hospitals or schools. Ontarians ultimately have to decide whether they are willing to put their utility costs on a tab and pay them with interest or whether they are going to pay them up front and on a current basis. Are they willing to face the facts of the Ontario electricity market and its true costs or do they want to carry on with the passivity and debt that is embodied in Fair Hydro?

CONCLUSION: RATE-PAYER VERSUS TAX-PAYER: THE FUTURE OF ELECTRICITY SUBSIDIES

Polling conducted by the Ontario government in 2016 revealed that 80% of Ontarians felt electricity prices were too high, and 61% felt they were a "real financial hardship"[56]. These polls informed the creation of the Fair Hydro Plan. The new government's pledges to further reduce the price of electricity suggest that it is aware of the electoral potential of this issue.[57]

The changes in financing structure made by the current Ontario government are unquestionably an improvement in the accounting treatment of electricity rate subsidies, as they bring practice in line with the recommendations of Ontario's Auditor General and Financial Accountability Office. However, the intended use of debt financing to fund continuing subsidies continues to shift current operating expenses into the future. The key question is who should pay for the cost of the electricity currently being used in the province: current ratepayers, future ratepayers, current taxpayers, or future taxpayers? Each of the choices leads to different outcomes in terms of incentivization alignment, fairness, and social impact. How closely is the payer linked to the usage decision maker? What are the implications for regional and generational fairness? What impact will each choice have on low income, middle income or high income Ontarians? Should electricity usage be subsidized by the provincial government in Ontario? Should current Ontarians or future Ontarians pay for today's costs of electricity usage in Ontario? These are the kinds of policy questions that are raised by the electricity policies now in place in the province.

Interestingly, none of the major political parties seems willing to face the public with any idea to impose the full costs of electricity on anyone currently, thus asking Ontarians to pay for all of their electricity costs on a current basis. This, it seems, is a bridge too far in contemporary electricity debates in the province of Ontario. No party has yet put forward a policy to end Fair Hydro and ask Ontario's electricity rate payers pay the current costs of their usage. Until that happens Fair Hydro debt will keep climbing ever higher, and Fair Hydro related interest costs will continue to grow.

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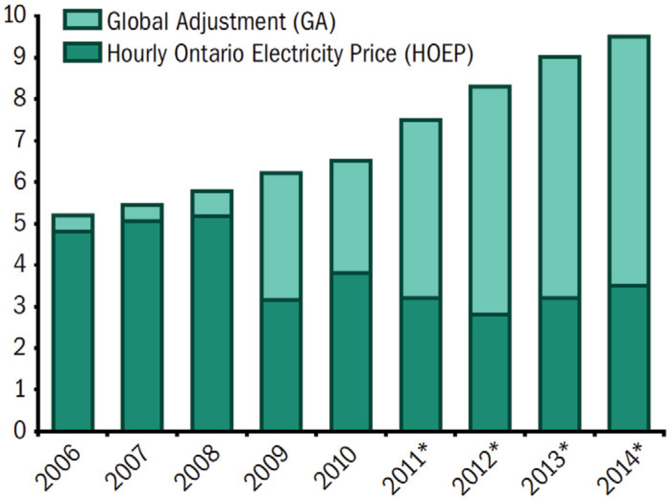
56 SCFT, *Hansard*, December 3, 2018, pp. 298-99; and Appendix 7: Gandalf Group Polling – Electricity Rates in Ontario (2016).

57 Government of Ontario. Ministry of Energy, Northern Development and Mines. "Ontario Takes Important Step Forward to Fix Hydro Mess." News release, May 9, 2019. Ontario Newsroom. Accessed June 27, 2019. **https://news.ontario.ca/mndmf/en/2019/05/ontario-takes-important-step-forward-to-fix-hydro-mess.html**.

Exhibit 1: Projected Global Adjustment Growth

Figure 2: Electricity Charge, 2006-2014 (¢/kWh)

Source of data: OPA and IESO



* Projected.

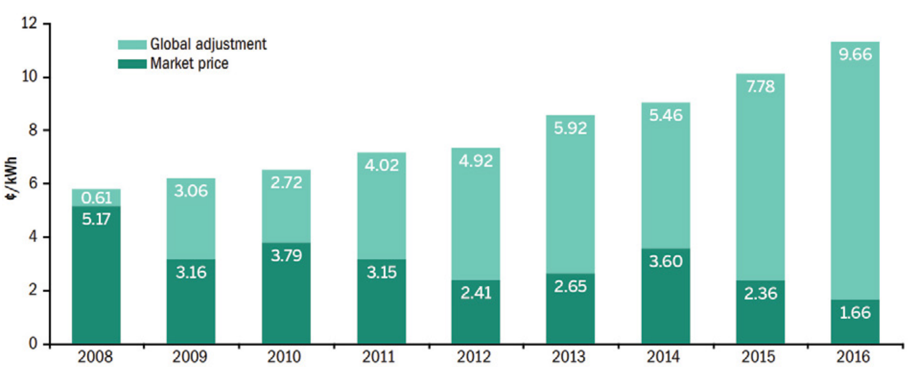
Note: kWh = kilowatt hour; OPA = Ontario Power Authority; IESO = Independent Electricity System Operator

Source: 2011 Auditor General's report on the proposed green energy strategy[58]

Exhibit 2: Actual Global Adjustment Growth

Figure 4: The Global Adjustment and Market Price Components of the Average Electricity Charge, 2008-2016

Source of data: Independent Electricity System Operator (IESO)



Note: kWh = kilowatt hour

Source: 2017 Auditor General's report on the Independent Electricity System Operator[59]

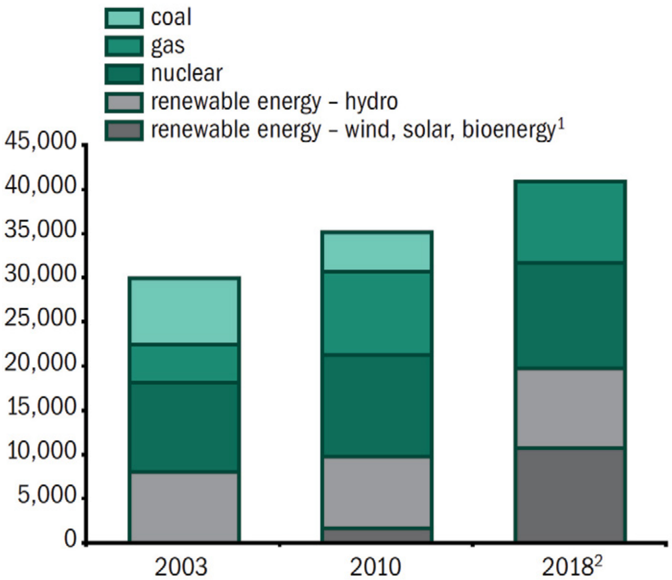
58 Office of the Auditor General of Ontario, *Annual Report 2011*, Chapter 3, Section 3.03, "Electricity Sector-Renewable Energy Initiatives," 2011.

59 Office of the Auditor General of Ontario, *Annual Report 2017*, Chapter 3, Section 3.06, "Independent Electricity System Operator – Market Oversight and Cybersecurity," 2017.

Exhibit 3: Energy Mix

Figure 1: Installed Capacity of Electricity Supply from Different Energy Sources (MW), 2003-2018

Source of data: Ministry of Energy



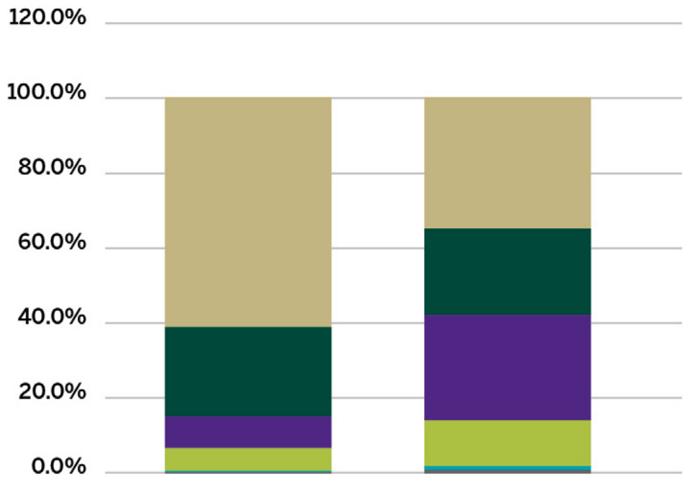
1. The expected electricity outputs from wind and solar are much lower than their installed capacity (see Figure 10).
2. Projected.

Note: MW = megawatts

Source: Office of the Auditor General of Ontario, *Annual Report 2011*, Chapter 3, Section 3.03, "Electricity Sector-Renewable Energy Initiatives," 2011.

Exhibit 4: Fiscal Impact of the Province's Fair Hydro Plan. The Queen's Printer for Ontario.

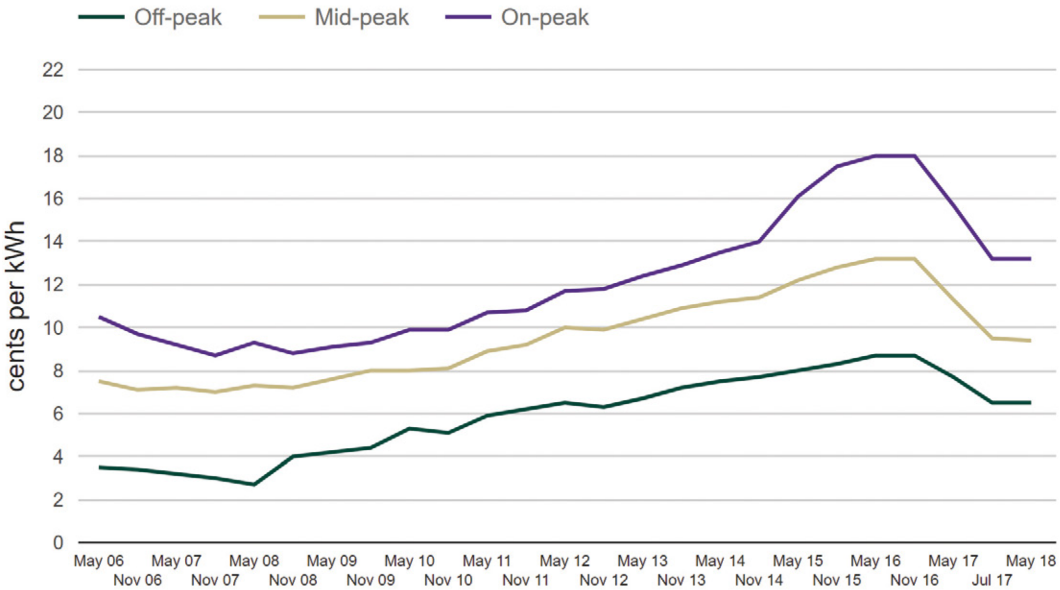
Ontario Generation Mix by Fuel 2016



	Power Production	Available Capacity
Nuclear	60.9%	35.0%
Hydro	23.7%	23.0%
Gas	8.5%	28.0%
Wind	6.2%	12.0%
Biofuel	0.3%	1.0%
Solar	0.3%	1.0%

Source: "Supply Overview." Transmission-Connected Generation. Accessed November 07, 2018.
http://www.ieso.ca/en/Power-Data/Supply-Overview/Transmission-Connected-Generation.

Exhibit 5: Historical Hydro Rates in Ontario



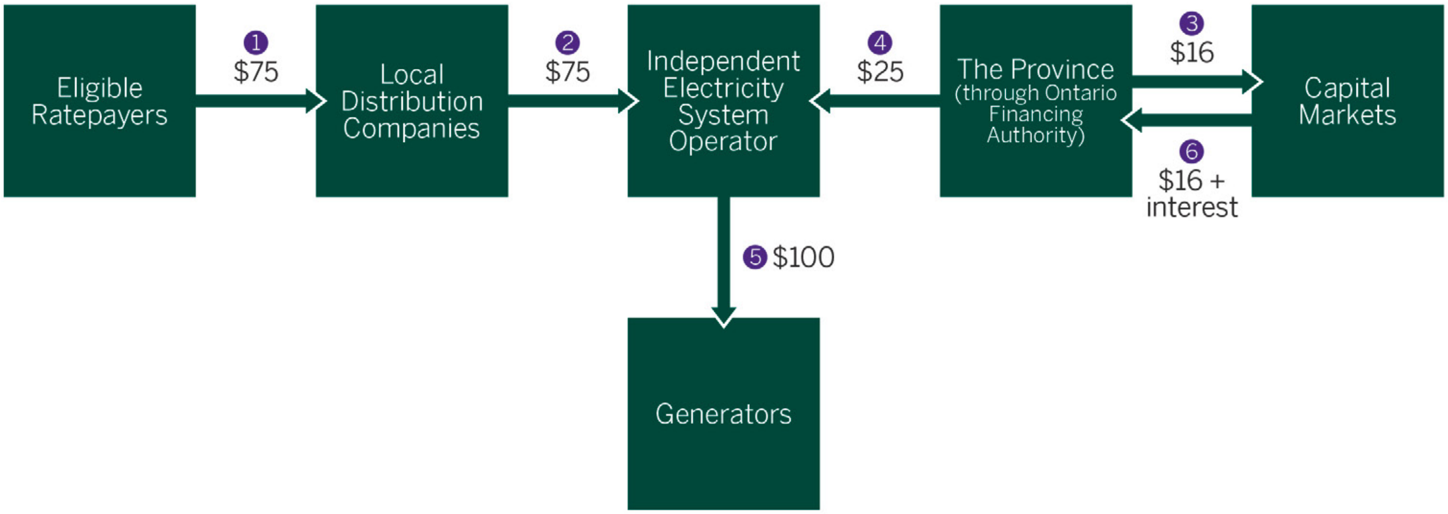
Note: kWh = kilowatt hours

Source: "Historical Electricity Rates," Ontario Energy Board, accessed November 7, 2018, https://www.oeb.ca/rates-and-your-bill/electricity-rates/historical-electricity-rates.

Exhibit 6: Accounting Transaction of the Fair Hydro Plan Diagram

Figure 1: The Substance of the Accounting/Financing Transactions

Prepared by the Office of the Auditor General of Ontario



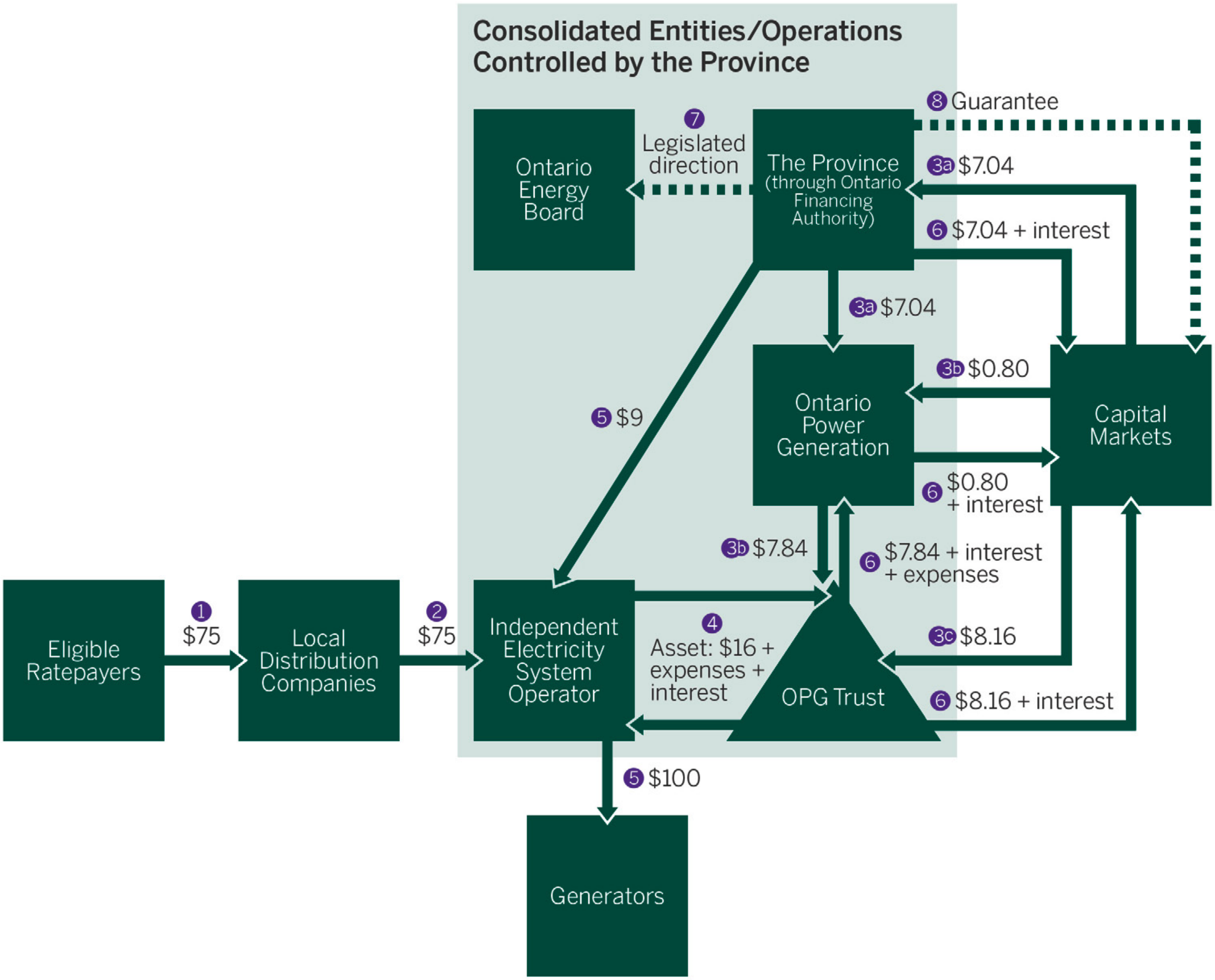
1. Eligible Ratepayers pay 25% less ($75 rather than $100) to Local Distribution Companies.
2. Local Distribution Companies remit this to the Independent Electricity System Operator.
3. To make up for 16% of the 25% shortfall ($16), the Province (through the Ontario Financing Authority (OFA), which borrows and invests on behalf of the Province) borrows the required amount from Capital Markets at the Provincial borrowing rate.
4. The Province flows funding to cover the full 25% shortfall ($25) to the Independent Electricity System Operator (16% or $16 from OFA borrowings plus 9% or $9 for the HST rebate and other programs).
5. The Independent Electricity System Operator uses the proceeds from Local Distribution Companies ($75) and the amount flowed from the Province ($25) to pay Generators 100% of the amount due to them under power contracts ($100).
6. The Province incurs interest on the 16% OFA borrowings ($16), and a future government will eventually collect money from Ontarians (ratepayers, taxpayers or both) to repay both the principal borrowed and the accumulated interest.

Source: Office of the Auditor General of Ontario, The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money. The Office of the Auditor General of Ontario.

Exhibit 7: Explanation of the Structure of the Transaction

Figure 2: The Form of the Planned Accounting/Financing Transactions

Prepared by the Office of the Auditor General of Ontario



1. Eligible Ratepayers pay 25% less ($75 rather than $100) to Local Distribution Companies.
2. Local Distribution Companies remit this to the Independent Electricity System Operator.
3. Of the 25% shortfall, 16% ($16) is borrowed from Capital Markets. The $16 is divided up among three borrowers: the Province (which borrows through the Ontario Financing Authority), Ontario Power Generation and OPG Trust. Each borrows different amounts at different interest rates.
   a. The Province directly borrows 44% of the shortfall amount ($7.04). The government flows this cash to Ontario Power Generation, and the Province records an increased equity investment in Ontario Power Generation.
   b. Ontario Power Generation directly borrows 5% of the shortfall amount ($0.80). This cash, plus the 44% investment from the Province ($7.04), enables OPG to lend OPG Trust 49% of the shortfall amount ($7.84). Ontario Power Generation charge OPG Trust interest plus administration and other fees (“expenses”).

c. OPG Trust directly borrows 51% of the shortfall amount ($8.16). This, plus the 49% loan from OPG ($7.84), covers the shortfall ($16).

4. Per the Fair Hydro Act, the Independent Electricity System Operator refers to its 16% shortfall as a "regulatory asset." This reference to a nonexistent "asset" is the start of a series of related transactions. As the Independent Electricity Operator's cash shortfalls occur, it sells this "asset" to OPG Trust. OPG Trust flows its borrowed cash to the Independent Electricity System Operator as payment for buying the "asset".
   OPG Trust incurs interest expense on its borrowings, as well as fees it pays to Ontario Power Generation. OPG Trust charges ratepayers for these costs through the Independent Electricity System Operator. These charges add to the shortfall, and the increase in the shortfall is added to the "asset" that OPG Trust buys from the Independent Electricity System Operator.
5. The Independent Electricity System Operator uses the proceeds from Local Distribution Companies ($75), the cash from selling the "asset" to OPG Trust ($16) and funds from general revenues of the Province to cover the HST rebate and other programs ($9) to pay Generators (including Ontario Power Generation in its normal capacity as a Generator) the $100 due to them under power contracts.
6. The Province, Ontario Power Generation and OPG Trust incur interest on their borrowings, and a future government will eventually collect money from Ontarians to repay the principal borrowed, the accumulated interest and expenses.
7. The Province provides legislated direction to the Ontario Energy Board to approve the rate changes that are required to achieve the rate reductions and recoveries.
8. The Province provides Capital Markets with a guarantee on debt instruments issued by OPG Trust.

Source: Toronto. Auditor General (2017). The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money. The Office of the Auditor General of Ontario.

Exhibit 8: US GAAP - FASB Topic 980 – Rate Regulated Activities – Excerpts

980-10-15-2

The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:

a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form. If an entity's regulated rates are based on the costs of a group of entities and the entity is so large in relation to the group of entities that its costs are, in essence, the group's costs, the regulation would meet this criterion for that entity.
c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. This last criterion is not intended as a requirement that the entity earn a fair return on shareholders' investment under all conditions; an entity can earn less than a fair return for many reasons unrelated to the ability to bill and collect rates that will recover allowable costs. For example, mild weather might reduce demand for energy utility services. In that case, rates that were expected to recover an entity's allowable costs might not do so. The resulting decreased earnings do not demonstrate an inability to charge and collect rates that would recover the entity's costs; rather, they demonstrate the uncertainty inherent in estimating weather conditions. This requirement must also be evaluated in light of the circumstances. For example, if the entity has an exclusive franchise to provide regulated services or products in an area and competition from other services or products is minimal, there is usually a reasonable expectation that it will continue to meet the other criteria. Exclusive franchises can be revoked, but they seldom are. If the entity has no exclusive franchise but has made the very large capital investment required to provide either the regulated services or products or an acceptable substitute, future competition also may be unlikely.

980-10-15-5

Guidance in other Codification Topics that applies to entities in general also applies to regulated entities. However, entities subject to this Topic shall apply it instead of any conflicting provisions of other parts of the Codification. For example, a regulator might authorize a regulated entity to incur a major research and development cost because the cost is expected to benefit future customers. The regulator might also direct that cost to be capitalized and amortized as an allowable cost over the period of expected benefit. If the criteria of paragraph 980-340-25-1 are met, the entity shall capitalize that cost even though Subtopic 730-10 requires such costs to be charged to income currently. That Subtopic shall still apply to accounting for other research and development costs of the regulated entity, as shall the disclosure requirements of that Subtopic.

980-10-15-7

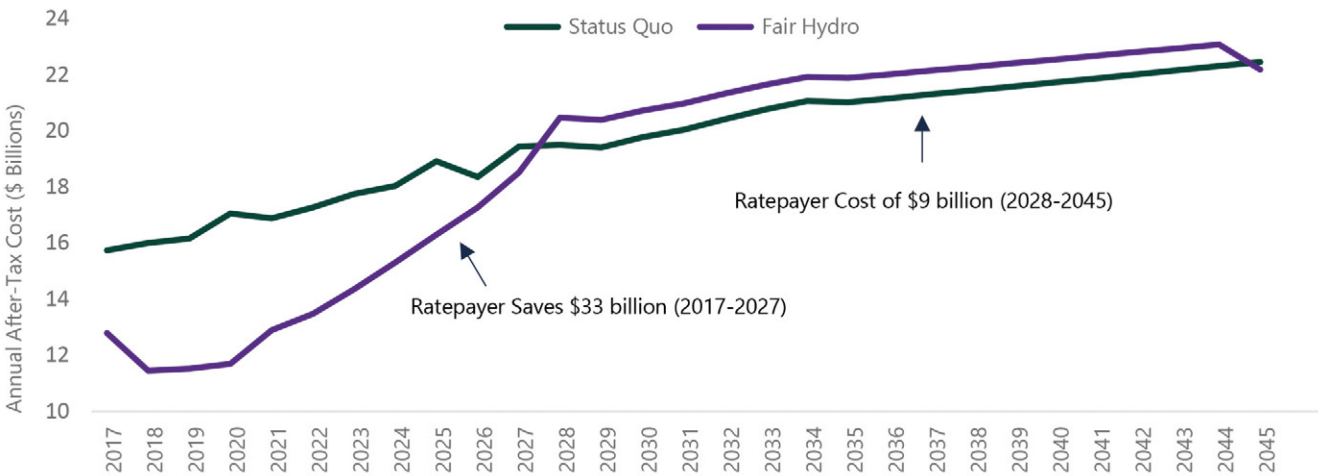
The guidance in the Regulated Operations Topic does not apply to any of the following transactions:

a) Accounting for price controls that are imposed by governmental action in times of emergency, high inflation, or other unusual conditions, or accounting for contracts in general. However, if the terms of a contract between an entity and its customer are subject to regulation and the criteria of paragraph 980-10-15-2 are met with respect to that contract, the guidance in this Topic shall apply.
b) An entity's regulatory accounting. Regulators may require regulated entities to maintain their accounts in a form that permits the regulator to obtain the information needed for regulatory purposes. This Topic neither limits a regulator's actions nor endorses them. Regulators' actions are based on many considerations. Accounting addresses the effects of those actions. This Topic merely specifies how the effects of different types of rate actions are reported in general-purpose financial statements.
c) The criterion in paragraph 980-10-15-2(a) is intended to exclude contractual arrangements in which the government, or another party that could be viewed as a regulator, is a party to a contract and is the entity's principal customer.

Exhibit 9

Figure 3-1: FAO's Estimated Impact of the FHP on Eligible Ratepayer Electricity Costs

Source of data: FAO analysis of Provincial information



Source: Financial Accountability Office of Ontario (2017). Fair Hydro Plan: An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan. The Queen's Printer for Ontario.

Exhibit 10: Corrected Revenue and Expense Projections for Ontario (CA$)

Figure 2: The Government's Revenue Estimates for 2018/19 - 2020/21 ($ billion)

Source of data: *2018 Pre-Election Report on Ontario's Finances*, Table 5

	2018/19	2019/20	2020/21
Revenue			
Personal income tax	35.6	37.7	39.7
Sales tax	26.8	27.9	28.9
Corporations tax	15.1	15.6	16.0
Ontario Health Premium	3.9	4.1	4.3
Education property tax	6.1	6.1	6.2
All other taxes	16.0	16.7	17.3
Total Taxation Revenue	**103.6**	**108.1**	**112.4**
Government of Canada	26.0	25.7	26.8
Income from Government Business Enterprises	5.3	6.0	6.6
Other non-tax revenue	17.6	17.7	18.0
Total Revenue	**152.5**	**157.6**	**163.8**

Note: Numbers may not add due to rounding. This table is based on Table 3.12 of the Ontario Budget.

Figure 1: The Government's Medium-Term Fiscal Plan for Ontario (Adjusted for Unrecorded Expenses) ($ billion)

Source of data: *2018 Pre-Election Report on Ontario's Finances*, Table 1, and Office of the Auditor General of Ontario

	2018/19	2019/20	2020/21
Revenue	**152.5**	**157.6**	**163.8**
Expense			
Programs	145.9	150.4	155.8
Interest on debt	12.5	13.1	13.8
Total Expense	**158.5**	**163.5**	**169.6**
Surplus/(Deficit) before reserve	**(6.0)**	**(5.9)**	**(5.8)**
Reserve	0.7	0.7	0.7
Surplus/(Deficit)	**(6.7)**	**(6.6)**	**(6.5)**
Adjustment for Unrecorded Expenses			
Payments to power generators and interest on borrowings	(2.4)	(2.6)	(2.8)
Unrecorded pension expense	(2.6)	(3.0)	(3.2)
Subtotal	**(5.0)**	**(5.6)**	**(6.0)**
Corrected Surplus/(Deficit)	**(11.7)**	**(12.2)**	**(12.5)**

Note: Numbers may not add due to rounding. This table is based on Table 3.8 of the Ontario Budget.

Source: Office of the Auditor General of Ontario, *Review of the 2018 Pre-Election Report on Ontario's Finances*, April 2018.

Exhibit 11: Evolution of Hydro Subsidies in Ontario