Ontario

MINISTRY OF
ENERGY

2017-18 Third Quarter Reporting

January 2018

Q3 Instructions

- The 2017 Ontario Economic Outlook and Fiscal Review is continuing to project a balanced budget in 2017-18.

- As part of the Third Quarter submission, ministries are required to submit an Interim Expense Outlook that will be published in the 2018 Budget and will be applied towards the Year-End savings target.

- Components of Third Quarter Reports are due to TBS in two phases:
  - **Phase I Submission (due January 19, 2018):**
    - 2017-18 Fiscal Management Plan;
    - Report backs on Ontario Fair Hydro Plan Transfer Payments and Strategic Asset Management and Transformation Transfer Payments;
    - 2017-18 Interim Expense Outlook Summary Report;
    - 2017-18 Interim Expense Outlook Details and Spending Rates Report; and
    - Updated 2018-19 PRRT out-year risks.

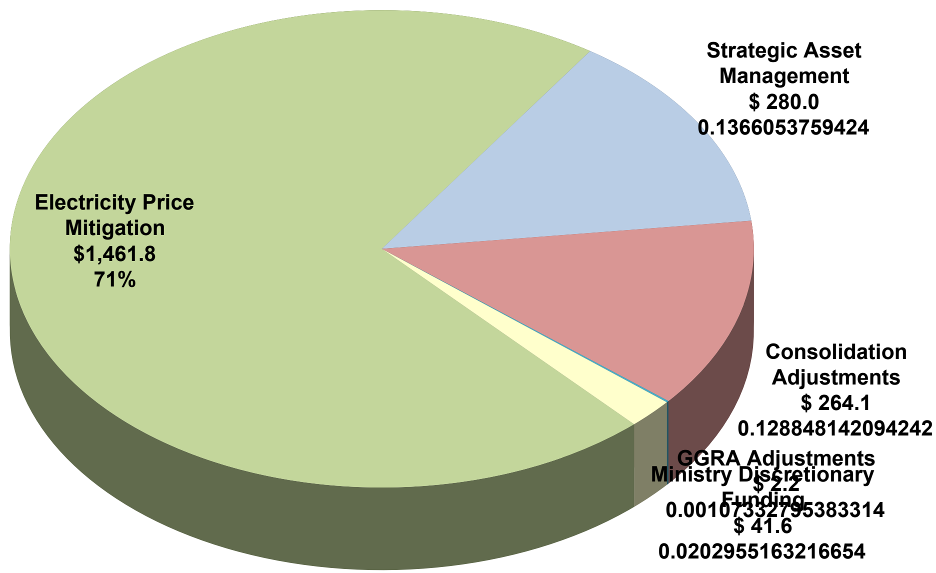
  - **Phase II Submission (due February 5, 2018):**
    - Regular Report Backs (GIF, Affordability Fund, and EV); and
    - Provincial Agency Risk reporting.

Recap: Ministry Approved Allocation in Q3

The Ministry received a $2.0 billion allocation in 2017-18.

- The largest component is rate mitigation initiatives (71%). These programs are demand-driven entitlement programs and spending is non-discretionary
- The second largest allocation in Strategic Asset Management (14%) supports Hydro One related transactions;
- The consolidation of fiscally neutral agencies (13%) have no impact on the fiscal plan, as expenses are fully recovered from the rate base; and
- The Ministry only has discretionary control over $41.6 million (2%) of its total budget.

($ millions)



Recap from Q2

Savings from the FHP Programs

- ENERGY has an allocation of $1,438 million for its Fair Hydro Plan Programs.
  - In Q2, ENERGY flagged potential net savings of $148.2 million from this allocation.
  - TBS did not minute out savings in Q2.

Savings from H1 Services (Strategic Asset Management)

- The Ministry received an allocation of $100 million in 2017-18 to support the H1 Secondary Offering.
  - The Ministry flagged an underspending of up to $30 million in H1 services and corresponding pressure for Métis Nation of Ontario (MNO) negotiation and settlement in Q2. ENERGY will use underspending from H1 Services to offset MNO pressure.

Ministry Discretionary Operating Cost

- In Q2, the Ministry was risk managing a number of projects and faced up to $2 million in internal pressures.

Ministry Narrative: 2017-18 Q3 Interim Expense Outlook

- The Ministry is projecting total year-end savings of approximately $258.7 million, mainly due to updated savings from Fair Hydro Plan programs and Strategic Asset Management.

- Based on projected savings, the Ministry is tracking to spend 87.4% of its approved allocation in 2017-18.

2017-18 Interim Expense Outlook ($ millions)	
Printed Estimates	2,049.9
Net In-year Approvals*	-0.2
Savings identified in Q2	*148.2*
New Savings identified in Q3	*110.5*
Total Potential Savings	**258.7**
Q3 Interim Expense Outlook	**1,791.0**
Q3 Interim Expense Outlook (% of Approved Allocation)	87.4%

*Includes Main Street Enhancement and OESP transfer to MCSS

Key Decisions – Savings from Fair Hydro Plan Transfer Payments

- The Ministry identified potential net savings of $188.6 million from Fair Hydro Plan Programs.

Program ($ millions)	Allocation	Q2 Forecast	Q3 Forecast	Changes from Q2 to Q3	Total Savings in Q3
OREC	939.0	883.0	883.0	0.0	56.0
OESP	*137.8	*37.8	25.2	12.6	112.6
DRP/RRRP	344.0	351.8	324.0	27.8	20.0
FNDC	15.0	15.0	15.0	0.0	0.0
TOTAL	**1,435.8**	**1,287.6**	**1,247.2**	**40.4**	**188.6**

*$2.2 million was transferred from OESP to MCSS through the Increasing Social Assistance joint submission

- In Q3, new savings of $40.4 million are found within OESP, DRP and RRRP.
- The Ministry may see additional savings within the Fair Hydro Plan programs based on Energy consumptions, which fluctuates depending on weather patterns.

Decision – Identify up to $188.6 million in total savings to TBS.

Key Decisions – Savings from Strategic Asset Management

- The Ministry identified potential savings of $73.7 million from Strategic Asset Management.

Program ($ millions)	Allocation	Q2 Forecast	Q3 Forecast	New Savings Identified In Q3	Potential Savings
Services	**100.0**	**100.0**	**95.0**	**5.0**	**5.0**
H1 Share Offering	*100.0*	*70.0*	*60.0*	*10.0*	*40.0*
MNO Costs	*0.0*	*30.0*	*35.0*	*-5.0*	*-35.0*
Conferred Benefit	**135.0**	**135.0**	**66.3**	**68.7**	**68.7**
Cash Contribution	**45.0**	**45.0**	**45.0**	**0.0**	**0.0**
TOTAL	**280.0**	**280.0**	**206.3**	**73.7**	**73.7**

Hydro One Services Allocation

- Approximately $60 million in services was attributed to the final share offering of Hydro One.
- EIGS forecasts $35.0 million need to support MNO Negotiations. Negotiations are on going.
- EIGS has identified $5 million in potential services savings. In Q1 and Q2, the services savings have been flagged to TBS for the 5% holdback attestation.
- An additional $35.0 million has been requested for 2018-19 in PRRT, in case MNO costs materialize in 2018-19.

Conferred Benefit and Cash Contribution (Province/COO)

- While the Province has completed its sale of Hydro One shares to First Nations based on 129 participating communities, in order to mitigate against the risk that the remaining 4 First Nation communities opt to participate in the future, EIGS is proposing to keep an additional $2.4 million in Conferred Benefit and all $16 million remaining in Cash Contribution for Q4.
- The remaining $68.7 million in Conferred Benefit can be returned to TB/MBC as savings.

Decision – ENERGY to flag $73.7 million (including hold back amount) from Strategic Asset Management, as Hydro One related appropriation is under executive control and cannot be reallocated without TB/MBC approval.

Other Q3 Updates

Ministry Discretionary Operating Cost

- The Ministry is forecasting to live within its discretionary allocation of $41.6 million (Vote 2901, 2902), due to the deferral of some previously identified projects.

Agency Consolidations (Fiscally Neutral – Offset by Revenue)

- Q3 Consolidation forecasts have been updated to reflect PRRT Interim Forecasts;
  - $4.5 million increase for IESO, due to higher payroll cost
  - $0.9 million decrease from OEB, due to operational savings
- These changes would have no impact on the government's fiscal plan since expenses are fully cost recovered from the rate base.

Ministry Interim Expense Outlook Summary

2017-18 Q3 Interim Expense Outlook Summary
Ministry of Energy

High Likelihood Expense Risks $ Millions	2017-18 Q1 INTERNAL	2017-18 Q2 INTERNAL	2017-18 Q3 INTERNAL	2017-18 Q3 (TBS)
Ministry Interim Expense Outlook				
Approved 2017 Allocation (Including Consolidations and GGRA Adjustments)	**2,049.851**	**2,049.851**	**2,049.851**	**2,049.851**
In-Year Changes				
OESP Transfer to MCSS		-2.176	-2.176	-2.176
New Funding for Main Street Enhancement Initiative			2.000	2.000
Current Approved Allocation	**2,049.851**	**2,047.675**	**2,049.675**	**2,049.675**
Potential Savings:				
OREC		-56.000	-56.000	-56.000
OESP		-100.000	-112.600	-112.600
DRP/RRRP		7.800	-20.000	-20.000
FNDC		0.000	0.000	0.000
Total Savings from Fair Hydro Plan Programs:	**0.000**	**-148.200**	**-188.600**	**-188.600**
H1 Services and MNO - Used to fulfill 5% Holdback Attestation			-5.000	-5.000
Conferred Benefit			-68.684	-68.684
Total Savings from Strategic Asset Management	**0.000**	**0.000**	**-73.684**	**-73.684**
Total Potential Savings excluding Consolidation Adjustments		**-148.200**	**-262.284**	**-262.284**
Interim Expense Outlook within Ministry Discretion	**2,049.851**	**1,899.475**	**1,787.391**	**1,787.391**
Interim Expense Outlook as % of Current Approved Allocation - within Ministry Discretion	**100.0%**	**92.8%**	**87.2%**	**87.2%**
Consolidation Adjustments				
Consolidation Update - IESO			4.500	4.500
Consolidation Update - OEB			-0.900	-0.900
Total Potential Savings	**0.000**	**-148.200**	**-258.684**	**-258.684**
Interim Expense Outlook	**2,049.851**	**1,899.475**	**1,790.991**	**1,790.991**
Interim Expense Outlook as % of Current Approved Allocation	**100.0%**	**92.8%**	**87.4%**	**87.4%**
Ministry Discretionary Operating Cost				
COMMS Projects				
Canadian Manufacturers and Exporters (CME) TPA	0.250	0.250	0.233	
Ontario Chamber of Commerce TPA	0.000	0.000	0.234	
Pollution Probe	0.350	0.350	0.042	
Bill Redesign Initiative	0.300	0.300	0.170	
SNAP Projects				
OEB Modernization Review Panel - NEW			0.350	
Shakerhill Partners	0.185	0.185	0.150	
TATA Power/Ryerson Distribution Project	0.121	0.121	0.121	
SGF Technical Support	0.521	0.521	0.120	
DISTRIBUTECH Conference - NEW			0.050	
OEB Mandate Review	0.031	0.031	0.031	
Toronto Region Board of Trade TAP Program	0.025	0.025	0.025	
The Study of Energy Storage in Ontario Distribution Systems	0.023	0.023	0.023	
Social Return on Investment (SROI)	0.010	0.010	0.018	
Political Territorial Organization (PTO) Energy Coordinators - Deferred	0.400	0.400	0.000	
Energy Technology Trade Project - Deferred	0.200	0.200	0.000	
Emerging Trends Research - Deferred	0.100	0.100	0.000	
CRED Projects				
Energy & Water Reporting and Benchmarking - IT Systems and Technical Support	1.520	1.520	1.069	1.069
NAFTA Arbitration: Tennant Energy LLC - Legal Charges	0.349	0.350	0.350	0.350
NAFTA Arbitration: MESA - Legal Charges - NEW			0.150	0.150
Green Button Technical Adoption of Standard	0.332	0.482	0.125	
BPS Sharepoint & IT Support & BPS AODA	0.120	0.120	0.120	
Energy & Water Reporting and Benchmarking - Partnerships	0.100	0.100	0.100	0.100
Energy & Water Reporting and Benchmarking - Education	0.050	0.050	0.050	0.050
Energy & Water Reporting and Benchmarking - MPAC Data Purchase			0.050	0.050
Study of Energy Efficiency for Drinking Water and Wastewater Treatment Plant Equipment	0.080	0.152	0.050	
Market Analysis of Ontario's Renewable Energy Sector	0.046	0.046	0.046	
Green Energy Investment Agreement (GEIA) Annual Jobs Auditing for 2015 and 2016	0.037	0.037	0.037	
Energy & Water Reporting and Benchmarking - Contact Centre			0.030	0.030
Municipal Property Assessment Corporation (MPAC) Data for a Home Energy Rating and Disclosure Program	0.029	0.029	0.029	
Considerations for Deploying In Front Of the Meter Conservation Technologies in Ontario	0.028	0.028	0.028	
Procurement of consulting services for design of Home Energy Rating and Disclosure program	0.026	0.026	0.026	
Bloomberg New Energy Finance All Services (Old & New Subscription)	0.113	0.074	0.017	
EWRB - Procurement of Expert Services on Ontario Large Building Sector Data	0.070	0.050	0.013	0.013
BPS Data Analysis - Deferred	0.090	0.000	0.000	
ESP Projects				
Default Emission Factors	0.050	0.050	0.017	
Plexos Ontario Electricity Model	0.080	0.080	0.086	
Energy East Consulting Cancelled	0.850	0.000	0.000	0.000
Weekly Fuel Price Survey	0.018	0.018	0.018	
Ministry Initiatives				
Fair Hydro Plan Third-Party Legal Services/Document Production (Amount to be confirmed)	2.500	2.500	2.700	2.700
Watay Power Third-Party Legal Services - NEW			0.300	0.300
Long Term Energy Plan Costs (SNAP & COMMs Projects)	0.416	0.416	0.175	0.175
Early Decant of Energy Staff from MacDonald Block - Deferred	1.250			
Resources to Support Ontario Rebate for Electricity Consumers Program	0.610	0.610	0.610	0.610
Offset 1: Ministry Discretionary Budget- Beginning of Year	-5.520	-5.520	-5.520	-5.597
Offset 2: Savings related to CI and GEI from CRED (to offset CRED expenses)	-1.500	-1.500	-1.500	
Offset 3: Operational Savings From Divisions			-0.609	
Total Internal Shortfall	**4.259**	**2.233**	**0.133**	**0.000**

See attached for a larger copy

Next Steps

- Deputy Minister approval of Phase 1 submission by **January 19, 2018**
  - Fiscal Management Plan (Narrative of Overall Fiscal Position)
    - Report backs on Ontario Fair Hydro Plan Transfer Payments and Strategic Asset Management and Transformation Transfer Payments; and
    - Risk-Based Outlook (high likelihood pressures and savings).

- Corporate Services Division will work with divisions to provide remaining Q3 requirements for the TBS deadline of **February 5, 2018.**
  - Expenditure Updates to be provided in Phase 2.

Appendix 1: Updates to Out-year PRRT Risks

- Status updates only – none of the numbers have changed.

Métis Nation of Ontario Negotiation

- Negotiations with Métis Nation of Ontario on Hydro One ownership are on-going. The Ministry may require up to $35M in either 2017-18 or 2018-19 depending on the terms and timing of an agreement.
- The MNO's lead negotiator was granted a mandate to negotiate for cash within a $20-30M range. In June 2017, the Provincial negotiating team received flexibility to provide up to $25M in cash, subject to final TB/MBC approval.
- The Province and MNO are working in partnership to develop a draft term sheet.
- The Ministry will report back to TB/MBC in February 2017 for approval prior to the finalization of the term sheet.

Affordability Fund Trust

- TBS requested Q3 report back on Affordability Fund. Ministry is working to provide a report back in Phase 2.
- Ministry noted program performance results were unavailable until the end of December 2017.
- The Ministry will continue to assess the need for additional funding based on program results and electricity customer needs.

Electricity Rate Mitigation Programs (ERMP):

- The Ministry will continue to collect and analyze actual program data in order to update forecasts.
- In PRRT, the Ministry was seeking approval for 19 permanent FTEs, and to realign reductions in out-year TP forecasts to offset program administration needs, starting in 2018-19.

Appendix 2: In-year Risk Reporting to TBS

Risk Reporting to TBS:

- The following risks were identified to TBS as in-year pressures managed from within:

1. Fair Hydro Plan (FHP) Third-Party Legal Service:	$2.65 million
2. Watay Power Third-Party Legal Service:	$0.50 million
3. NAFTA Tennant Lawsuit:	$0.35 million
4. NAFTA MESA Lawsuit:	$0.15 million
5. Cap and Trade Implementation Costs – EWRB:	$1.31 million
6. Long-Term Energy Plan:	$0.18 million
7. Resources to support OREC:	$0.61 million

Total identified pressures with internal offset:	**$5.60 million**