Ontario

MINISTRY OF
ENERGY

2017-18 Second Quarter Reporting

October 2017

Q2 Instructions

- Components of Second Quarter Reports are due to TBS in two phases:
  - **Phase I Submission (Submitted October 13, 2017):**
    - Fiscal Position Narrative;
    - 2017-18 Risk-Based Outlook; and
    - Report Backs on spending in Vote/Item 2902-01, Policy and Programs and Vote/Item 2906-01, Strategic Asset Management and Transformation.
  - **Phase II Submission (due October 31, 2017):**
    - Fiscal Position Details including forecasting approach, assumptions and cost drivers;
    - 2017-18 Risk-Based Outlook Details and Spending Rate Report;
    - Details on Planned Discretionary Spending;
    - Report back – Green Investment Fund;
    - Provincial Agency Risk reporting; and
    - In-Year Capital Forecasting and Reporting.

Recap: Phase I Decisions

Identify Savings from the Social Programs

- ENERGY has an allocation of $1,438 million for its Fair Hydro Plan Programs.
  - The Ministry flagged potential net savings of $148.2 million from this allocation.
  - TBS indicated they do not plan to minute out funding from Ministry allocations during Q2 and will return to the Ministry should funding realignments be required.
  - The Ministry will return during Q3 to identify any additional savings and confirm allocation to be minuted out.
  - A summary of the FHP savings is included in Appendix A.

Identify Savings from H1 Services (Strategic Asset Management)

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

Recap: Managing within Allocation with Key Pressures

The Ministry has identified to TBS $6.8 million in non-recurring pressures that are being managed using internal resources:

1. Fair Hydro Plan Third-Party Legal Service:	$2.5 million
2. NAFTA Tennant Lawsuit:	$0.4 million
3. Cap and Trade Implementation Costs – EWRB:	$1.7 million
4. Early Decant of Energy Staff from MacDonald Block:	$1.3 million
5. Long-Term Energy Plan:	$0.4 million
6. Resources to support OREC:	$0.6 million
Total additional pressures to be managed from within	$6.8 million

It is unlikely all pressures will fully materialize by year-end if projects are not underway by Q2/Q3.

Internal Holdback:

- Ministry also identified $5.9 million for internal holdback on planned discretionary spending, which will be managed through Vote 2906, Strategic Asset Management.

Update: Ministry Internal Outlook as of Q2

- In Phase I, ENERGY identified an internal shortfall of up to $3.5 million.
  - Cost for Early Decant of Energy Staff has moved to 2018-19, reducing 2017-18 shortfall by $1.3 million to $2.2 million.
  - Ministry will update its Q3 submission to reflect this change to TBS.

- If the following potential offsets materialize by year-end, Ministry shortfall will be reduced to zero:
  - Full cost recovery of EWRB expenses through GGRA.
  - Underspending in Fair Hydro Plan Third Party Legal Services Costs.

- Divisions will provide updated forecasts in Q3.

	Millions ($)
Total Internal Shortfall Identified in Phase I (Refer to Risk Based Outlook Document)	**3.5**
Less: Early Decant of Energy Staff from MacDonald Block (Project moved to 2018-19)	(1.3)
Updated Internal Shortfall in Phase II (Refer to Risk Based Outlook Document)	**2.2**
Less: Potential Recovery of Cap and Trade Implementation Costs (EWRB) from GGRA	(1.7)
Less: Potential Underspending in Fair Hydro Plan Third Party Legal Services	(0.5)
Target Shortfall at Year-end	**0.0**

Summary of Ministry Expenditure (as of Q2)

	Millions ($)
2017-18 Approved Allocation (excluding consolidations)	1,783.5
Less: Potential Fair Hydro Plan savings identified during Phase I	(148.2)
2017-18 Q2 Risk-based Outlook	**1,635.3**

- ENERGY’s 2017-18 Approved Allocation, excluding consolidations, is $1,783.5 million.
- ENERGY’s updated Risk-based Outlook as of Q2 is $1,635.3 million, after adjusting for $148.2 million of identified savings from the Fair Hydro Plan (FHP) Programs.
- As of Q2, the Ministry has spent $476.2 million, representing 26.7% of its Approved Allocation and 29.1% of its Q2 Risk Based Outlook.
- Year-to-date actuals are mainly driven by the following expenditures:
  - $402.7 million for FHP Program payments and NOEC;
  - $56.6 million for H1 Services, including underwriting fees; and
  - $16.9 million for remaining Ministry expenditures.

Expenditures by Standard Account (as of Q2)

Standard Account Breakdown (in $Millions)	2017-18 Budget (Estimates)	2017-18 Q2 Actuals	2017-18 Remaining Budget	2017-18 Q2 % Spent	2016-17 Year-end Budget	2016-17 Q2 Actuals	2016-17 Q2 % Spent
Salaries and Wages	19.2	8.8	10.4	45.9%	19.8	8.1	40.8%
Employee Benefits	2.3	1.2	1.2	50.7%	2.4	1.2	48.8%
Transportation and Communications	0.7	0.3	0.4	39.0%	0.7	0.2	29.6%
Services[1]	113.3	62.7	50.6	55.3%	89.8	4.9	5.5%
Supplies and Equipment	0.7	0.1	0.5	16.7%	0.7	0.1	17.5%
Total Direct Operating Expense	**136.2**	**73.1**	**63.1**	**53.6%**	**113.3**	**14.5**	**12.8%**
Transfer Payments:							
TP_Conservation Initiatives	1.9	0.1	1.8	3.1%	1.9	0.1	4.1%
TP_Green Energy Initiatives	1.3	0.1	1.2	8.8%	201.3	0.3	0.1%
TP_Aboriginal Engagement Agreements	0.2	-	0.2	0.0%	0.2	0.8	413.7%
TP_E-Vehicle Overnight Charging	2.2	-	2.2	0.0%	-	-	-
TP_Northern Ontario Energy Credit	26.0	8.3	17.7	31.8%	26.0	6.4	24.7%
TP_Ontario Rebate for Electricity Consumers	939.0	345.2	593.8	36.8%	300.0	-	-
TP_Ontario Electricity Support Program	137.8	-	137.8	0.0%	-	-	-
TP_Rural or Remote Rate Protection	344.0	47.7	296.3	13.9%	-	-	-
TP_On-Reserve First Nations Delivery Credit	15.0	1.5	13.5	10.3%	-	-	-
TP_Conferred Benefit	135.0	-	135.0	0.0%	-	-	-
TP_Cash Contribution to First Nations	45.0	-	45.0	0.0%	-	-	-
Total Transfer Payments	**1,647.4**	**403.1**	**1,244.5**	**24.5%**	**558.2**	**7.6**	**1.4%**
Grand Total[2]	**1,783.5**	**476.2**	**1,307.6**	**26.7%**	**671.5**	**22.1**	**3.3%**

[1]Q2 2017-18 services spending rates are higher due to the booking of H1 Underwriting fees. ($55.8 million booked in Q2 2017-18)

[2]Overall spending rate for 2017-18 is higher due to Fair Hydro Plan and H1 Underwriting fees. Total excludes consolidations.

Expenditures by Division (as of Q2)

Divisional Breakdown (in $Millions)	2017-18 Budget (Cost Centre)	2017-18 Q2 Actuals	2017-18 Remaining Budget	2017-18 Q2 % Spent	2016-17 Year-end Budget	2016-17 Q2 Actuals	2016-17 Q2 % Spent
Main Office	2.8	1.5	1.4	51.4%	2.8	1.2	43.1%
Corporate Services	5.4	1.9	3.6	34.7%	6.3	1.7	27.7%
Communication Services[1]	4.0	3.9	0.1	98.0%	4.3	1.6	37.0%
Legal Services[2]	3.4	2.2	1.2	64.7%	4.0	1.5	37.9%
Strategic Network and Agency Policy	7.3	3.0	4.3	40.5%	6.7	2.4	36.3%
Energy Supply Policy	4.9	1.6	3.3	32.4%	6.6	2.2	33.6%
Conservation and Renewable Energy[3]	8.4	2.5	5.9	29.9%	37.3	2.5	6.7%
Strategic Asset Management[4]	100.0	56.6	43.4	56.6%	45.3	1.3	2.8%
Total Direct Operating Expenses	**136.2**	**73.1**	**63.1**	**53.6%**	**113.3**	**14.5**	**12.8%**
Transfer Payments:							
TP_Smart Grid Fund	-	0.2	-	-	8.0	-	0.0%
TP_Conservation Initiatives	1.9	0.1	1.8	3.1%	1.9	0.1	4.1%
TP_Green Energy Initiatives	1.3	0.1	1.2	8.8%	201.3	0.3	0.1%
TP_Aboriginal Engagement Agreements	0.2	-	0.2	0.0%	0.2	0.8	413.7%
TP_E-Vehicle Overnight Charging	2.2	-	2.2	0.0%	-	-	-
TP_OCEB	-	-	-	-	20.8	-	0.0%
TP_Northern Ontario Energy Credit	26.0	8.3	17.7	31.8%	26.0	6.4	24.7%
TP_Ontario Rebate for Electricity Consumers	939.0	345.2	593.8	36.8%	300.0	-	0.0%
TP_Ontario Electricity Support Program	137.8	-	137.8	0.0%	-	-	-
TP_Rural or Remote Rate Protection	344.0	47.7	296.3	13.9%	-	-	-
TP_On-Reserve First Nations Delivery Credit	15.0	1.5	13.5	10.3%	-	-	-
TP_Conferred Benefit	135.0	-	135.0	0.0%	-	-	-
TP_Cash Contribution to First Nations	45.0	-	45.0	0.0%	-	-	-
Total Transfer Payments	**1,647.4**	**403.1**	**1,244.5**	**24.5%**	**558.2**	**7.6**	**1.4%**
Grand Total[5]	**1,783.5**	**476.2**	**1,307.6**	**26.7%**	**671.5**	**22.1**	**3.3%**

[1] Q2 2017-18 Actuals are higher for Communications due to Fair Hydro Plan Bulk Media Buy. Costs will be recovered from TBS in Q3.

[2] Q2 2017-18 Actuals are higher for Legal Services due to Fair Hydro Plan Third-Party Legal Services. ($1.0 million in actuals to date)

[3] CRED's Budget in 2016-17 includes in-year approval for NAFTA Windstream settlement. ($28.5 million through in-year approvals)

[4] Q2 2017-18 Actuals are higher for Strategic Asset Management due to the booking of underwriting fees ($55.8 million booked in Q2).

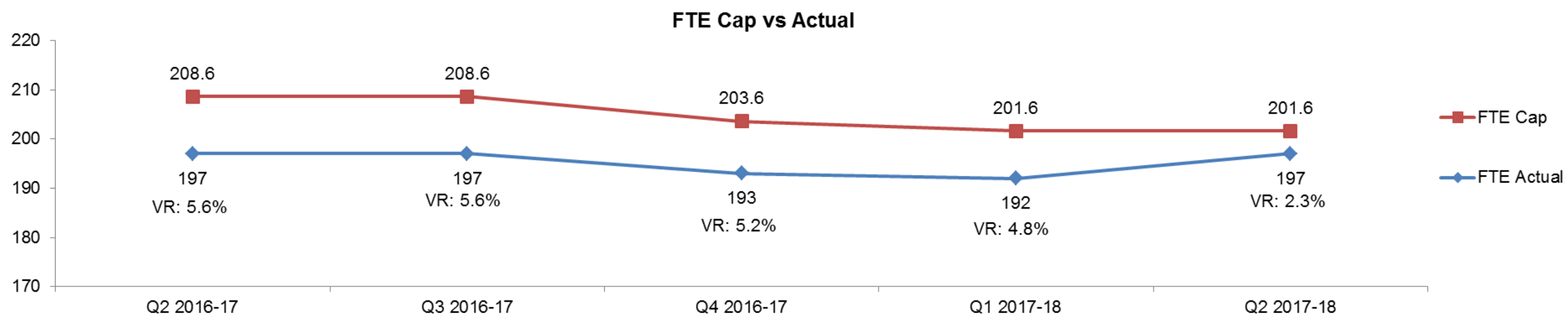
[5] Overall Spending rate for 2017-18 is higher due to monthly Fair Hydro Plan Program payments. Total excludes consolidations.

Ministry Staffing Position (as of Q2)

- As of Q2, Ministry's actual FTE count is 197 against a cap of 201.6, representing a vacancy rate of 2.3%.
- According to Recruitment Service, ENERGY currently has 8 competitions in process.

	Q2 2017-18			Q1 2017-18		
	FTE Caps	FTE Actual	Vacancy	FTE Caps	FTE Actual	Vacancy
Minister's Office	16	15	1	16	16	0
Deputy Minister's Office	8	10	-2	8	11	-3
Communications Branch	28	30	-2	28	28	0
Corporate Services	15.6	19	-3.4	15.6	16	-0.4
Strategic Network and Agency Policy	54	51	3	54	51	3
Energy Supply Policy	37	29	8	37	30	7
Conservation and Renewable Energy	48	43	5	48	40	8
Risk Manage MO FTEs	-3	0	-3	-3	0	-3
Temporary Transfer of FTEs*	-2	0	-2	-2	0	-2
Total	**201.6**	**197**	**4.6**	**201.6**	**192**	**9.6**
Vacancy Rate (VR)			**2.3%**			**4.8%**

*Transfer of 2 temporary FTEs for 2017-18 to GSIC for Energy and Water Reporting and Benchmarking (EWRB) Project



Q2 Update - Other Items

Report back - Implementation status of the Green Investment Fund:

- Home Reno Rebate (Union)/ Whole Home Retrofit Program (Enbridge):
  - $100.0 million: Enbridge and Union have a total of 6,800 program participants as of August 2017.

- Smart Grid Fund
  - $2.0 million OPG's Gull Bay First Nation project:
    - Expected completion in Q4 2017-18.
  - $2.0 million Canadian Solar's Keewaywin project:
    - The project is estimated to be one full year behind schedule. There continues to be a shortfall in the project funding from other parties.
    - Given the lack of progress over the past months, the Ministry is currently considering whether or not to continue the project.

Agency Risk Report - nil report

Next Steps

- ❑ Deputy Minister's approval of the Phase II submission by October 30, 2017:
  - Fiscal Position Details including forecasting approach, assumptions and cost drivers;
  - 2017-18 Risk-Based Outlook Details and Spending Rate Report;
  - Details on Planned Discretionary Spending;
  - Report back – Green Investment Fund;
  - Provincial Agency Risk reporting; and
  - In-Year Capital Forecasting and Reporting.
- ❑ CSD to submit Phase II materials to TBS by October 30, 2017.

Appendix A - Summary of Fair Hydro Plan Savings

Fair Hydro Plan Programs are all organized under the same vote-item, can be used to offset each other.

Ontario Rebate for Electricity Consumers ($M)	2017-18	2018-19	2019-20	2020-21
Original Forecast *(as of Printed Estimates)*	939.00	882.00	882.00	895.00
Revised Forecast *(revised October 2017)*	883.00	860.00	861.00	871.00
+ Surplus / - Deficit	**56.00**	**22.00**	**21.00**	**24.00**
Ontario Electricity Support Program ($M)				
Original Forecast *(as of Printed Estimates)*	140.00	259.44	325.00	375.00
Revised Forecast *(based on 60% uptake)*	40.00	230.00	264.00	288.00
+ Surplus / - Deficit	**100.00**	**29.44**	**61.00**	**87.00**

*Ministry forecasts $40 million of the 2017-18 allocation will be used this fiscal and will in a better position to identify savings during Q3.

First Nation Delivery Credit ($M)	2017-18	2018-19	2019-20	2020-21
Original Forecast *(as of Printed Estimates)*	15.00	20.00	20.00	20.00
Revised Forecast *(based on H1 Rate Application – full approval)*	15.00	19.60	20.90	21.90
+ Surplus / - Deficit	**0.00**	**0.40**	**-0.90**	**-1.90**
Distribution Rate Protection ($M)				
Original Forecast *(as of Printed Estimates)*	162.00	222.00	228.00	234.00
Revised Forecast *(based on H1 Rate Application – full approval)*	172.00	260.10	291.70	309.00
+ Surplus / - Deficit	**-10.00**	**-38.10**	**-63.70**	**-75.00**
Rural or Remote Rate Protection ($M)				
Original Forecast *(as of Printed Estimates)*	182.00	250.00	256.00	263.00
Revised Forecast *(based on H1 Customer Projections)*	179.80	238.70	239.90	241.20
+ Surplus / - Deficit	**2.20**	**11.30**	**16.10**	**21.80**
Total Original Forecast	1438.00	1633.44	1711.00	1787.00
Total Revised Forecast	1289.80	1608.40	1677.50	1731.10
+ Surplus / - Deficit	**148.20**	**25.04**	**33.50**	**55.90**

Appendix B - Q2 Internal Holdback on 5% of Discretionary Spending

Standard Account, TP	Total Allocation 2017-18 Estimates ($M)	Discretionary Spending Q1 ($M)	Discretionary Spending Q2 ($M)
Vote 2901-01			
Salaries and Wages	6.8	6.8	Not Discretionary
Employee Benefits	0.8	0.8	Not Discretionary
Transportation & Communication	0.3	0.3	0.3
Services	11.1	11.1	11.1
Supplies & Equipment	0.3	0.3	0.3
Total	**15.1**	**15.1**	**7.4**
Vote 2902-01			
Salaries and Wages	12.3	12.3	Not Discretionary
Employee Benefits	1.5	1.5	Not Discretionary
Transportation & Communication	0.4	0.4	0.4
Services	6.5	6.5	6.5
Supplies & Equipment	0.3	0.3	0.3
Transfer Payments	-	-	-
Aboriginal Engagement Agreements	0.2	0.2	0.2
Green Energy Initiatives	1.3	1.3	1.3
Conservation Initiatives	1.9	1.9	1.9
Total	**24.5**	**24.5**	**10.6**
Vote 2905-01			
Transfer Payments	1,464.0	-	-
Ontario Electricity Support Program	140.0	Not Discretionary	Not Discretionary
Rural or Remote Rate Protection Program	344.0	Not Discretionary	Not Discretionary
Nothern Ontario Energy Credit	26.0	Not Discretionary	Not Discretionary
Ontario Rebate for Electricity Consumers	939.0	Not Discretionary	Not Discretionary
On-Reserve First Nations Delivery Credit	15.0	Not Discretionary	Not Discretionary
Total	**1,464.0**	**-**	**-**
Vote 2906-01			
Services*	100.0	100.0	100.0
Transfer Payments	180.0	-	-
Conferred Benefit Amount	135.0	Not Discretionary	Not Discretionary
Strategic Asset Management Indigenous Engagement	0.0	Not Discretionary	Not Discretionary
Cash Contribution for First Nations	45.0	Not Discretionary	Not Discretionary
Total	**280.0**	**100.0**	**100.0**
Total	**1,783.5**	**139.5**	**118.1**
Total Discretionary Spending Placed on Holdback (5% of Total)		**7.0**	**5.9**

*The Ministry has indicated in Q1 the holdback would be managed through Vote 2906-01, under Services.