April 5, 2018

Ministry of Energy: 2018-19 Expenditure Estimates

ISSUE:

The government's 2018-19 Expenditure Estimates (Printed Estimates) is expected to be tabled in the Legislature on April XX, 2018.

KEY MESSAGES:

- **The Ministry of Energy continues to ensure on a clean, reliable and affordable electricity system for all Ontarians.**

- **The Ministry's 2018-19 expense allocation, inclusive of consolidation adjustments, is $1,990.5 million. This is a decrease of $59.3 million (3%) from the 2017-18 allocation of $2,049.9 million.**

- **The change is mainly due to the decrease in allocation for Strategic Asset Management and Transformation, as the Province completed its initiative to broaden the ownership of Hydro One in 2017-18.**

- **The Ministry's expense allocation also includes approximately $1,606.8 million towards the Electricity Price Mitigation Programs introduced through the Ontario Fair Hydro Plan. This allocation is a forecast determined through historical data and assumptions on a number of variables including program uptake, weather, consumption, and electricity rates.**

- **Expenses for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) are consolidated onto the Ministry's Printed Estimates. These expenses are fully recovered from the rate base.**

BACKGROUND:

The Ministry of Energy's 2018-19 Printed Estimates shows the Ministry's 2018-19 and 2017-18 Estimates and 2016-17 Actuals.

MINISTRY PROGRAM SUMMARY

($)

VOTE	PROGRAM	Estimates 2018-19	Estimates 2017-18	Difference Between 2018-19 and 2017-18	Actuals 2016-17
	OPERATING EXPENSE				
2901	Ministry Administration Program	15,065,600	15,075,200	(9,600)	14,026,484
2902	Energy Development and Management	47,882,100	24,459,500	23,422,600	257,233,750
2905	Electricity Price Mitigation	1,606,826,400	1,464,000,000	142,826,400	346,343,666
2906	Strategic Asset Management	35,000,000	280,000,000	(245,000,000)	42,946,786
	Total Operating Expense to be Voted	**1,704,774,100**	**1,783,534,700**	**(78,760,600)**	**660,550,686**
	Statutory Appropriations	65,014	65,014	-	65,968
	Ministry Total Operating Expense	**1,704,839,114**	**1,783,599,714**	**(78,760,600)**	**660,616,654**
	Consolidation Adjustment - Independent Electricity System Operator	204,518,400	196,347,800	8,170,600	197,214,878
	Consolidation - Ontario Energy Board	43,728,300	44,514,000	(785,700)	37,682,318
	Operating Expense Adjustment - Greenhouse Gas Reduction Account Reclassification	12,180,000	2,150,000	10,030,000	-
	Total Including Consolidation & Other Adjustments	**1,965,265,814**	**2,026,611,514**	**(61,345,700)**	**895,513,850**
	OPERATING ASSETS				
2901	Ministry Administration Program	1,000	-	1,000	-
2905	Electricity Price Mitigation	1,100,000,000	1,100,000,000	-	-
	Total Operating Assets to be Voted	**1,100,001,000**	**1,100,000,000**	**1,000**	**-**
	Ministry Total Operating Assets	**1,100,001,000**	**1,100,000,000**	**1.000**	**-**
	CAPITAL EXPENSE				
2902	Energy Development and Management	1,000	1,000	-	-
	Total Capital Expense to be Voted	**1,000**	**1,000**	**-**	**-**
	Statutory Appropriations	1,000	1,000	-	-
	Ministry Total Capital Expense	**2,000**	**2,000**	**-**	**-**
	Consolidation Adjustment - Independent Electricity System Operator	22,624,100	22,013,900	610,200	23,498,723
	Consolidation Adjustment - Ontario Energy Board	2,637,400	1,223,800	1,413,600	780,000
	Total Including Consolidation & Other Adjustments	**25,263,500**	**23,239,700**	**2,023,800**	**24,278,723**
	CAPITAL ASSETS				
2902	Energy Development and Management	1,000	1,000	-	-
	Total Capital Assets to be Voted	**1,000**	**1,000**	**-**	**-**
	Ministry Total Capital Assets	**1,000**	**1,000**	**-**	**-**
	Ministry Total Operating and Capital Including Consolidation and Other Adjustments (not including Assets)	**1,990,529,314**	**2,049,851,214**	**(59,321,900)**	**919,792,573**

The Ministry's 2018-19 expense allocation, inclusive of consolidation adjustments, is $1,990.5 million. This is a decrease of $59.3 million (3%) from the 2017-18 allocation of $2,049.9 million.

Changes in Vote 2901 – Ministry Administration Program

PROGRAM ($ Millions)	Estimates 2018-19	Estimates 2017-18
Vote 2901 - Ministry Administration		
Base Ministry Allocation	15.0752	15.0752
Key Decisions		
IT-Rationalization – Vendor Optimization	(0.0096)	-
Total Vote 2901 - Ministry Administration Allocation	**15.0656**	**15.0752**
Statutory Appropriations	0.0640	0.0640

- The Ministry's allocation for Vote 2901 is $15.1 million. The allocation supports Ministry executive direction, strategic advice and vital organizational functions including communications, legal services, and corporate services.

- Vote 2901's allocation was reduced by $9,600 from 2017-18 to 2018-19 for the IT-Rationalization – Vendor Optimization Initiative. This was an enterprise-wide expense reduction initiative apportioned by Government Services Integration Cluster (GSIC) to reflect price reduction for Fee-For-Service vendors.

Changes in Vote 2902 – Energy Development and Management

PROGRAM ($ Millions)	Estimates 2018-19	Estimates 2017-18
Vote 2902 - Energy Development and Management		
Base Ministry Allocation	24.4595	24.4595
Key Decisions		
Smart Grid Fund	20.0000	-
Resources to support the Ontario Fair Hydro Programs	3.4226	-
Electric Vehicle Overnight Charging Rebate Program	2.1800	2.1500
Recoveries: Electric Vehicle Overnight Charging Rebate Program	(2.1800)	(2.1500)
Microgrid Technology for Diesel Reduction	10.0000	-
Recoveries: Microgrid Technology for Diesel Reduction	(10.000)	-
Total Vote 2902 - Energy Development and Management	**47.8821**	**24.4595**
Statutory Appropriations	0.0010	0.0010

- The Ministry's allocation for Vote 2902 is $47.9 million. The allocation supports the development of the structural, legislative and regulatory approaches necessary for a reliable electricity sector.

- Vote 2902's allocation increased by $23.4 million from 2017-18 to 2018-19.

- In 2018-19, the Ministry received an allocation of $20 million to renew the Smart Grid Fund Program.

    - The Smart Grid Fund supports projects that test, develop and bring to market the next generation of energy grid solutions, helping consumers and businesses manage energy costs, improve conservation efforts, and integrate new beneficial technologies like electric vehicles and storage.

- The renewed Smart Grid Fund project is a $60 million program over four years. Out-year allocations is $18 million in 2019-20, $15 million in 2020-21, and $7 million in 2021-22.

- Through the 2018-19 Program Review, Renewal and Transformation (PRRT) process, the Ministry received 14 temporary FTEs, and supporting allocation, from 2018-19 to 2020-21 to support the Ontario Fair Hydro Plan programs. The allocation. Of the $3.4 million allocation, $1.4 million is allocated to salaries and wages.

- The Ministry is supporting two initiatives that have recoveries from the Greenhouse Gas Reduction Account in 2018-19:

  - $10 million for the Microgrids Technology for Diesel Reduction Program to support microgrid projects in four targeted First Nations (Weenusk, Fort Severn, Whitesand and Gull Bay), where connection to the grid is not economical.

  - $2.18 million for the Electric Vehicle Overnight Charging Rebate Program to provide free overnight electric vehicle-charging to residential and multi-unit residential customers.

Changes in Vote 2905 – Electricity Price Mitigation

PROGRAM ($ Millions)	Estimates 2018-19	Estimates 2017-18
Vote 2905 - Electricity Price Mitigation (Operating Expense)		
Base Ministry Allocation	26.0000	26.0000
Key Decisions		
Ontario Rebate for Electricity Consumers	860.0000	939.0000
Rural or Remote Rate Protection Program	238.7000	344.0000
Distribution Rate Protection	233.3000	-
Ontario Electricity Support Program	229.2264	140.0000
On-Reserve First Nations Delivery Credit	19.6000	15.0000
Total Vote 2905 - Electricity Price Mitigation (Operating Expense)	**1,606.8264**	**1,464.0000**

- The Ministry's allocation for Vote 2905 is $1,606.8 million. The Electricity Price Mitigation programs help Ontarians manage electricity costs.

- Vote 2905's allocation increased by $142.8 million due to changes in Ontario Fair Hydro Plan (OFHP) programs.

  - This is largely the result of most programs having only a partial year allocation in 2017-18. RRRP, DRP and FNDC took effect on July 1, 2018, and OESP transitioned to the rate base on February 15, 2018. Through PRRT, the Ministry also revised its forecasts using more recent data sets which resulted in further changes.

Note 1: The Distribution Rate Protection Program was funded through the Rural or Remote Rate Protection Program in 2017-18. A separate transfer payment line was created by reallocating a portion of the Remote Rate Protection Program allocation.

Note 2: The Executive Control over allocation for Vote 2905 is placed at the Vote/Item level. This permits movement of allocation between the Electricity Price Mitigation Programs.

Changes in Vote 2906 – Strategic Asset Management

PROGRAM ($ Millions)	Estimates 2018-19	Estimates 2017-18
Vote 2906 - Strategic Asset Management		
Base Ministry Allocation	70.0000	70.0000
Key Decisions		
Hydro One Secondary Offering Services	(35.0000)	30.0000
Cash Contribution to First Nations	-	45.0000
Conferred Benefit to First Nations	-	135.0000
Total Vote 2905 - Electricity Price Mitigation	**35.0000**	**280.0000**

- The Ministry's allocation for Vote 2906 is $35 million. The allocation supports the Province as a shareholder of Hydro One.

- Vote's 2906 allocation decreased by $245 million from 2017-18 to 2018-19. In 2017-18, the Ministry received a one-time allocation of $210 million for initiatives related secondary share offerings and Indigenous participation in Hydro One. These transactions will not be repeated in 2017-18. As such, this results in:

    - $65 million reduction in funds to support Secondary Offering transaction costs;
    - $45 million reduction in the Cash Contribution to First Nations Transfer Payment; and
    - $135 million reduction in the Conferred Benefit to First Nations Transfer Payment.

- Since the Province completed its anticipated final share offering of Hydro One in May 2017, the full allocation of $70 million is no longer needed. Only $35 million is set aside to offset potential costs associated with negotiations currently underway with the Métis Nation of Ontario in relation to broadening the ownership of Hydro One.

Changes in Operating Assets

PROGRAM ($ Millions)	Estimates 2017-18	Estimates 2018-19
Vote 2901 - Ministry Administration (Operating Assets)		
Base Ministry Allocation	0.0010	-
Vote 2905 - Electricity Price Mitigation (Operating Assets)		
OPG Share Sales	1,100.0000	1,100.0000
Total Vote 2905 - Electricity Price Mitigation (Operating Assets)	**1,100.0010**	**1,100.0000**

- Starting in 2017-18, the Ministry's Expenditure Estimates includes an Operating Asset to help facilitate refinancing a portion of Global Adjustment.

    - Ontario Power Generation (OPG) would provide the financing for the proposal to refinance a portion of Global Adjustment. In order to keep its capital structure in line, OPG would require equity injections on an on-going basis from the Province through the Ministry of Energy.

- New in 2018-19, an Operating Asset placeholder of $1,000 has been allocated to enable overpayment recoveries for expenditures. This addition was applied to all Ministries.

Changes in Consolidation and Other Adjustments

CONSOLIDATION & OTHER ADJUSTMENTS
($)

PROGRAM	Estimates 2017-18	Estimates 2018-19	Difference Between 2018-19 and 2017-18
CONSOLIDATION ADJUSTMENTS			
Independent Electricity System Operator (IESO)			
Operating Expense	196,347,800	204,518,400	8,170,600
Capital Expense	22,013,900	22,624,100	610,200
Total IESO Consolidation Adjustments	**218,361,700**	**227,142,600**	**8,780,900**
Ontario Energy Board (OEB)			
Operating Expense	44,514,000	43,728,300	(785,700)
Capital Expense	1,223,800	2,637,400	1,413,600
Total OEB Consolidation Adjustments	**45,737,800**	**46,365,700**	**627,900**
Total Consolidation Variance			**9,408,800**
OTHER ADJUSTMENTS			
Operating Expense Adjustment - Greenhouse Gas Reduction Account Reclassification	2,150,000	12,180,000	10,030,000
Total Other Adjustments	2,150,000	12,180,000	10,030,000

Consolidation Adjustments

The Province of Ontario follows PSAB (Public Sector Accounting Board) accounting standards. Under PSAB, expenses of the Ministry of Energy's agencies are consolidated with the Ministry’s own accounts for reporting in the Ontario Budget and in the Printed Estimates.

Expenses of the following agencies are consolidated with expenses in the Ministry’s own accounts, but they are fully recovered from the rate base:

- Independent Electricity System Operator (IESO)
- Ontario Energy Board (OEB)

The consolidation adjustments to the Ministry’s Expense for the 2018-19 budget have increased by approximately $9.4 million (4%) to $273.5 million, from the 2017-18 budget of $264.1 million.

Note: numbers below have been rounded for presentation.

Changes from the IESO: Net increase of $8.8 million (4% increase)

- $8.2 million increase in Operating Expense is mainly driven by resources required for market renewal initiatives (approximately $6 million), as well as changes in pension and post-employment benefits (approximately $2 million).

- $0.6 million increase in Capital Expense is driven by a higher amortization costs for capital assets placed in service.

Changes from the OEB: Net increase of $0.6 million (1% increase)

- $0.8 million decrease in Operating Expense is driven by recovery of hearing fees from related parties.

- $1.4 million increase in Capital Expense is driven by increased leasehold improvements to renovate OEB office space and public meeting rooms. This renovation project is designed to accommodate the expanded Public Affairs function and to provide better access to OEB facilities for consumers and stakeholders. This is OEB's first major renovation since 2004.

Other Adjustments

Starting in 2017-18, the Ministry's Expenditure Estimates includes a Designated Purpose Account to reclassify expenses as part of the Greenhouse Gas Reduction Account (GGRA) initiatives.

Expenses from the Electric Vehicle Overnight Charging Rebate Program and the Microgrid Technology for Diesel Reduction are recovered, and funded from GGRA, by MOECC through a recovery line on Energy's Expenditure Estimates. To ensure these expenses are fully reported on Energy's financial statements, the amount is reclassified as a GGRA expense and is consolidated as an "Other Adjustment."

TBS included language onto the Expenditure Estimates for all Ministries that have GGRA initiatives to the effect of: recoveries from the Greenhouse Gas Reduction Account are based on forecasts of anticipated revenues and contingent upon a sufficient balance standing to the credit of the Greenhouse Gas Reduction Account.