2017-18 Fiscal Management Plan

Fiscal Position Details

Part 3: Forecast Rationale

Changes to forecast since Q1

In Q2, the Ministry lowered its Risk-based Outlook to $1,899.5 million. The change was due to updated forecasts for Ontario's Fair Hydro Plan Programs (OFHP).

Potential Savings in Ontario's Fair Hydro Plan Programs

Prior to program roll-outs, initial allocations for OFHP programs were determined through historical data and assumptions on a number of variables, including program uptake, weather, consumption, electricity rates, etc. Since implementation, the Ministry collected and analyzed updated program data in order to revise its forecasts. The Ministry is flagging a potential net saving of $148.2 million from Ontario's Fair Hydro Plan Programs.

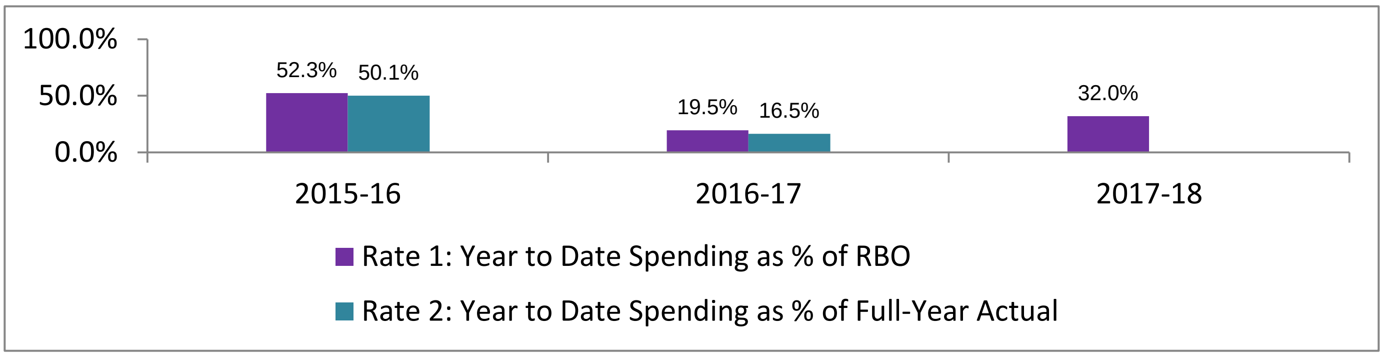
Ontario Rebate for Electricity Consumers ($M)	2017-18
Original Forecast	939.00
Revised Forecast	883.00
+ Potential Savings / - Pressure	**56.00**
Ontario Electricity Support Program ($M)	
Original Forecast	140.00
Revised Forecast	40.00
+ Potential Savings / - Pressure	**100.00**
First Nation Delivery Credit ($M)	
Original Forecast	15.00
Revised Forecast	15.00
+ Potential Savings / - Pressure	**0.00**
Distribution Rate Protection ($M)	
Original Forecast (Funded through Rural or Remote Rate Protection TP Line)	162.00
Revised Forecast	172.00
+ Potential Savings / - Pressure	**-10.00**
Rural or Remote Rate Protection ($M)	
Original Forecast	182.00
Revised Forecast	179.80
+ Potential Savings / - Pressure	**2.20**
Total Net Potential Savings	**148.20**

A detailed description of OFHP pressures and savings is included in Part 4.

Comparative analysis with prior Year to Date – Ministry wide

The Ministry's 2017-18 Q2 RBO is significantly higher compared to prior fiscal years because of the increased allocation to support programs in the Ontario's Fair Hydro Plan. The Ministry's Q2 spending outlook saw an increase of $1,123.5 million from 2016-17 to $1,899.5 million in 2017-18 Q2. The table and chart below illustrate the Ministry's Q2 Spending as a percentage of Q2 Risk-based Outlook (RBO) along with full-year actuals:

In Millions ($)		2015-16	2016-17	2017-18
A	Q2 Year-to-date Actuals	617.3	151.5	608.2
B	Q2 Risk-based Outlook	1,181.3	776.0	1,899.5
C	Full Year Actuals	1,232.2	919.8	N/A
A/B	Rate #1	52.3%	19.5%	32.0%
A/C	Rate #2	50.1%	16.5%	N/A



Q2 Expense Drivers in 2015-16:

- 76.8% of actuals were Ontario Clean Energy Benefit (OCEB) Program payments.
- 9.9% of actuals were consolidation forecasts for fiscally neutral agencies – the OEB and the IESO.
- Other expenses represented 13.3% of total actuals.

Q2 Expense Drivers in 2016-17:

- The expenses as of Q2 2016-17 were significantly lower, because the Ministry did not have any rate Mitigation programs.
- 85.5% of actuals were consolidation forecasts for fiscally neutral agencies – the OEB and the IESO.
- Other expenses represented 14.5% of total actuals.

Q2 Expense Drivers in 2017-18:

- 66.2% of actuals were Ontario's Fair Hydro Plan Program payments and NOEC payments.
- 21.7% of actuals were consolidation forecasts for fiscally neultral agencies – the OEB and the IESO.
- 9.3% of actuals were related services to support to the Hydro One Secondary Offering.
- Other expenses represented 2.8% of total actuals.

Part 4: High Likelihood Risks (Pressures and Savings)

Updated Q1 Risks:

Ontario's Participation at Energy East Hearings

Emerging/new policy risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
0.29	0.41	0.41	-	-	-	-	-	0.85	0.00	-	-

*As reported in prior years

This item is no longer a risk as the Energy East Projects was cancelled on October 5, 2017.

The Ministry represented Ontario at the National Energy Board (NEB) hearing on TransCanada's Energy East projects. The Province was required to attend the hearings in order to defend the government's position on Energy East pipelines. To best represent Ontario's position, the Ministry procured four expert consultants to provide advice throughout the NEB hearings.

Energy East Consulting Costs were reported as a pressure in 2015-16, and were offset using internal Ministry savings.

Energy & Water Reporting and Benchmarking

Implementation risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	1.67	1.72	-	-

*As reported in prior years

EWRB forecasts were modified in Q2 to align cost estimates more closely with program updates, resulting in a slight increase of $0.05M.

In 2016, Ontario's five-year Climate Change Action Plan committed to requiring Energy and Water Reporting and Benchmarking (EWRB) for large buildings. EWRB is the review of a building's energy and water use and comparison of the usage with similar buildings. Resources are required to ensure the proper adoption of EWRB, which includes responsibilities such as securing a client relationship management system and establishing a call centre. The Ministry did not receive resources for this project from GGRA funding.

The costs are expected to be realized throughout the remainder of this fiscal year, and should continue into the upcoming fiscal years.

The impact of this pressure will be shown in Vote/Item 2902-01, Energy Development and Management.

New Savings and Pressures in Q2

Potential Savings in Ontario's Fair Hydro Plan Programs

The savings related to the programs in the Fair Hydro Plan are demand driven and will impact Vote/Item 2905-01, Energy Price Mitigation.

Potential Savings – Ontario Rebate for Electricity Consumers (OREC) — **Demand driven/forecast risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	(56.0)	-	-

*As reported in prior years

OREC provides a 8% benefit of electricity cost on eligible customer's bills, equal to the provincial portion of HST.

OREC program actual costs have been lower than original forecasts during the first half of 2017-18. Variance between the original forecast and actuals could be the result of several factors:

- Cooler weather over the 2017 summer period when electricity consumption typically is at its peak; and
- Bill reductions as a result of the implementation of the OFHP programs.

OREC forecasts have been modified in Q2 to align cost estimates more closely with recent actual costs, resulting in anticipated savings of $56 million.

Potential Savings – Ontario Electricity Support Program (OESP) — **Demand driven/forecast risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	(100.0)	-	-

*As reported in prior years

The OESP provides ongoing rate reduction directly on the electricity bills of low-income households who have applied and meet the eligibility requirements.

Prior to the introduction of Ontario's Fair Hydro Plan, the OESP was funded through the electricity rate base. To facilitate monthly program settlements, funding collected from electricity bills were pooled in a variance account held with the IESO before payment. Program expenses were then expensed against the variance account.

As of Q2, the OESP variance account still carries a balance. OESP will continue to be funded through the variance account until the account depletes in Q3. ENERGY estimates that approximately $40 million of program allocation will be required to finance OESP for the remainder of 2017-18, resulting in savings of $100 million.

The Ministry will be in a better position to confirm the OESP savings to TB/MBC during Q3 once the program has transitioned to tax-base funding.

Potential Savings – Rural or Remote Electricity Rate Protection (RRRP) — **Demand driven/forecast risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	(2.2)	-	-

*As reported in prior years

RRRP mitigates high costs of electricity distribution in rural or remote areas of the Province. A major portion of the program costs are paid to low-density residential customers served by Hydro One.

RRRP forecasts have been modified in Q2 to reflect the declining number of low-density residential customers, resulting in potential savings of $2.2 million.

The savings related to RRRP are demand driven and will impact Vote/Item 2905-01, Energy Price Mitigation.

Potential Pressure – Distribution Rate Protection Program (DRP) — **Demand driven/forecast risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	10.0	-	-

*As reported in prior years

The Ontario Energy Board sets a maximum monthly base distribution charge for eligible customers. This cap provides an immediate decrease in the base distribution charges paid by the most eligible customers.

DRP program costs are dependent on electricity rates. Hydro One, which services the largest number of DRP eligible customers, submitted a rate application to the OEB. If approved as filed, costs associated with the program will be higher than the Ministry's original forecasts, resulting in additional pressures of $10 million.

The Ministry plans to offset DRP pressures using savings from the other Fair Hydro Plan programs.

Hydro One Secondary Offering Cost and Métis Nation Engagement

These are policy implementation related savings and will impact Vote/Item 2906-01, Strategic Asset Management.

Potential Savings – Strategic Asset Management Services — **Emerging/new policy risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	(30.0)	-	-

*As reported in prior years

Through 2017-18 PRRT, TB/MBC approved an allocation of $100 million in services to support the asset transformation mandate in the 2017-18.

The Ministry of Energy's asset transformation mandate supports:

- Broadening the ownership of Hydro One through the Province's share sales strategy;
- Discussions with Indigenous communities, as represented by Chiefs of Ontario (COO) and Métis Nation of Ontario (MNO), related to broadening the ownership of Hydro One;
- The sale of Hydro One Brampton to Alectra.

As of Q2, the Ministry is projecting potential savings of up to $30 million in Hydro One secondary offering services costs. A refined estimate of the final asset transformation costs should be available in Q3.

Potential Pressure – Costs to Support Negotiations with Metis Nation of Ontario Relating to Hydro One Onwership — **Emerging/new policy risk**

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	-	30.0	-	-

*As reported in prior years

Energy reported back to TB (September 13th, 2016) and Cabinet (September 28th, 2016) and obtained a revised mandate for discussions with MNO. Discussions are currently underway. Depending on the terms and timing of the final agreement, the Ministry may require up to $30 million in 2017-18 in support of the MNO negotiation and settlement. Energy will report back to TB/MBC for approval prior to finalization of the term sheet.

The Ministry will request to repurpose services savings in Strategic Asset Management as an offset if this risk materializes in 2017-18.

Depending on progress of negotiations and timing of closing, the risk could materialize 2018-19. The Ministry is requesting funding in PRRT to offset potential pressures.

Appendix – Q1 Risks with No Changes

Fair Hydro Plan Third-Party Legal Services

Implementation risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	2.5	2.5	-	-

*As reported in prior years

The Ministry is working to implement the Fair Hydro Plan to lower the cost of electricity for Ontario consumers. This electricity price mitigation strategy is comprised of several initiatives that aim to lower the price components of consumers' electricity bills, or remove components from electricity bills altogether. The legal work required to support these initiative includes development of the legislative framework, drafting appropriate sale/purchase agreements, and arranging financing between Special Purpose Vehicle/Trust and private sector lenders. Blakes LLP was contracted to provide specialized expertise in support of the required legal services for the Fair Hydro Plan.

Since the Fair Hydro Plan was announced and introduced in 2017-18, this risk is new to the current fiscal year. Signficant legal costs have been incurred to date, as the Ministry is projecting a $2.5 million pressure from legal services that is expected to be realized in its entirety throughout the current fiscal year.

The Fair Hydro Plan legal costs impact Vote/Item 2902-01, Energy Development and Management.

Early Decant of Energy Staff from MacDonald Block

Other risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	1.25	1.25	-	-

*As reported in prior years

The Ministry may require an early decant of staff from MacDonald Block to support the Queen's Park Reconstruction Project. The Ministry is projecting accommodation costs to be approximately $1.25 million, based on historical accommodation moves.

This risk is new to the 2017-18 fiscal year. Costs for this pressure have not yet been realized, but are expected to materialize in the last two quarters of the year and may continue into the following fiscal year.

The anticipated costs will impact Vote/Item 2901-01, Ministry Administration. The Ministry plans to manage any expenses related to the decant of Energy staff from within, and find internal savings in Vote/Item 2902-01, Energy Development and Management, to offset this pressure.

Resources Support for the Ontario Rebate for Electricity Consumers

Emerging/new policy risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	0.61	0.61	-	-

*As reported in prior years

The Ontario Rebate for Electricity Consumers was introduced by the Ministry to provide an 8% rebate to eligible consumers, effective January 1, 2017. The program requires dedicated resources to cover a number of critical responsibilities to ensure successful implementation. These resources will provide financial support, communications and marketing support, as well as support for policy and program development. The Ministry requested four new permanent FTEs during the 2017-18 PRRT process which were not approved.

This risk is new to the 2017-18 fiscal year. Since OREC is a permanent program, this resource requirement will be an ongoing risk in the out-years. The total projection of $0.61 million is expected to be realized in its entirety throughout the current fiscal year.

These are policy implementation related costs and will impact Vote/Item 2902-01, Energy Development and Management.

Long-Term Energy Plan (LTEP) 2017

Emerging/new policy risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	0.10	0.10	-	-	-	-	-	0.42	0.42	-	-

*As reported in prior years

The Ministry is mandated to update its Long-Term Energy Plan this fiscal. A number of costs will be incurred for this update, including public consultation and engagement sessions, and the release of the physical document. Major costs will be incurred prior to its release, with minor implementation costs following.

The Ministry identified LTEP pressures in 2015-16 and 2016-17. These included travel costs for consultation and engagement sessions, as well as communications costs for writing, graphic design, printing, event planning and advertising. These pressures were offset in 2015-16 and 2016-17 using internal Ministry savings.

A significate portion of the projected LTEP pressure for 2017-18 is expected to materialize by the end of the second quarter of this fiscal year with the release of the LTEP.

2017 LTEP costs are related to policy implementation and will impact Vote/Item 2902-01, Energy Development and Management.

NAFTA Arbitration: Tennant Energy LLC

Emerging/new policy risk

2015-16* ($M)				2016-17* ($M)				2017-18 Forecast ($M)			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	-	-	-	-	-	-	-	0.35	0.35	-	-

*As reported in prior years

Tennant Energy LLC filed a Notice of Arbitration under Chapter 11 of the North American Free Trade Agreement (NAFTA) which commences an Investor-State Arbitration against Canada. Tennant claims that Canada violates Article 1105 of NAFTA through measures and actions taken by the Government of Ontario in relation to the Feed-in tariff program and the Green Energy Investment Agreement. The Ministry is expected to share the costs of the arbitration with the federal government.

This risk is new to the 2017-18 fiscal year. It is extremely likely that an Arbitral Tribunal will be established by early September. As a result, costs will likely be realized beginning in the third quarter of the current fiscal year. Costs are expected to continue until the arbitration is complete, but the pressure may continue into the next fiscal year considering the length of the arbitration is undetermined at this time.

The pressure is related to the implementation of one of the Ministry's policies, and thus impacts Vote/Item 2902-01, Energy Development and Management.