Ontario

November 28, 2016

MEMORANDUM TO: The Honorable Liz Sandals, President of the Treasury Board

FROM: Minister Glenn Thibeault

SUBJECT: **Ministry of Energy 2017-18 PRRT Plan Impact Analysis**

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1. The major objectives and outcomes of your plan

Only 9% of the allocation is for the Ministry's own spending to deliver on its mandate and commitments. The Ministry is highly effective at running its activities on a small budget and with just over 200 FTEs.

The largest component of the Ministry's allocation is its rate mitigation initiative for residential, farms and small business consumers – the Ontario Rebate for Electricity Consumers and Northern Ontario Energy Credit account for 73% of the Ministry's allocation. These programs are demand-driven entitlement programs and spending is non-discretionary; the Ministry does not have control over this allocation.

The consolidation of fiscally neutral agencies – the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) – account for 18% of the Ministry's allocation. Realizing operating savings on these entities would have no impact on the government's fiscal plan since expenses are fully cost recovered from the rate base.

2. The significant actions proposed (what will be most difficult, both large & small?)

The Ministry already received the following as part of its preliminary allocation:

a. Increase of $1,006 million for the implementation of the Ontario Rebate for Electricity Consumers; and
b. Increase of $45 million over three years to First Nations, as a cash contribution, related to Hydro One share purchase.

These expenses are under executive control and as such, cannot be re-allocated to deliver Ministry spending to deliver its other mandates and commitments.

The preliminary allocation for 2017-18 requires the Ministry to achieve a saving of $1.9 million.

To meet the $1.9 million saving target, the Ministry will seek to achieve internal efficiencies within its allocation in Vote 2902, Energy Development and Management, through:

c. Prioritizing project delivery and implementation of certain Ministry initiatives;
d. Evaluating the delivery model on policy implementation; and
e. Reducing operating expenses by re-aligning Ministry resources.

The Ministry has also achieved significant revenue generation to contribute to the fiscal plan:

- In November 2015, the Province completed the Hydro One Ltd. IPO and raised approximately $1.83 billion in gross proceeds and approximately $116 million from related share sales.
- The secondary share offering of Hydro One was completed in April 2016, generating approximately $1.97 billion in gross proceeds.
- Net revenue gains from the offerings in April 2016 is credited to the Trillium Trust for infrastructure projects in the future. To date, the Trillium Trust has been credited with approximately $3.2 billion from transactions in 2015.
- Ontario remains on track to generate approximately $9 billion in gross proceeds and other revenue benefits. This includes $4 billion in net revenue gains that will be invested in infrastructure and $5 billion to reduce debt.
- $236 million of net income generated from Hydro One attributed to the Province in 2015-16*.
- $463 million of net income generated from OPG attributed to the Province in 2015-16.

3. The impacts on stakeholders and Ontarians / communications narrative

Extensive province-wide consultations for the updated Long-Term Energy Plan.

Ensure engagement of stakeholders and communication regarding existing and new conservation initiatives as they are developed and implemented.

Communication about the implementation of new electricity price mitigation initiatives for all consumers; the new 8% rebate and expansion of existing programs will provide some relief.

4. Decision Points

Request:

(1) Additional funding, based on updated forecast, for the Ontario Rebate for Electricity Consumers*;

(2) 4 permanent FTEs to support program delivery; and
(3) Funding to support program administration.

- In October 2016, legislation passed that would provide an 8% rebate, the provincial portion of the HST, from electricity bills as of January 1, 2017. This will result in an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.
- The Ministry requires additional funding in 2017-18 to effectively deliver the Ontario Rebate for Electricity Consumers
- An increase of $94 million in operating expense for program delivery based on updated forecast; this will bring the total expenditure in 2017-18 to $1.1 billion for the program.
  - The initial forecast was subsequently revised based on updated methodology and improved data inputs, leading to an increase in the estimated cost of administering the program in all years.

Request:

(1) Additional funding to support future share sales of Hydro One;
(2) Permanency of the 5 FTEs the Ministry received during the 2016-17 PRRT process to support the Investment and Governance Secretariat;
(3) Increase funding to provide full cash contributions to First Nations in 2017-18;
(4) Appropriation increase to book the conferred benefit amount to First Nations.

- In 2016, the Ministry successfully continued the broadening of Hydro One through a careful, staged approached, generating $1.83 billion in revenue for the government and increasing publically held shares to approximately 30%.