Fiscal Position Details

Part 1: Forecast Rationale

Current Year Approach

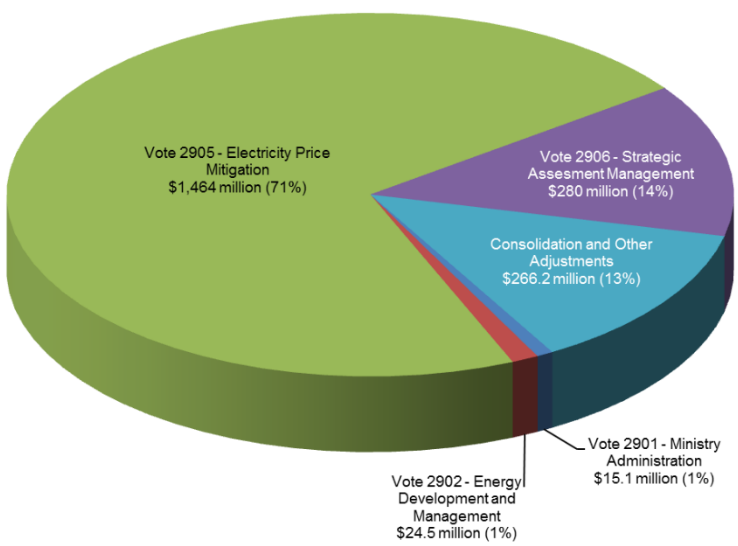
Cost Drivers

The Ministry of Energy's 2017-18 expenditures are mainly driven by:

- Rate mitigation initiatives, which include Transfer Payments related to Ontario's Fair Hydro Plan and the Northern Ontario Energy Credit (NOEC);
- Transfer Payments and Services dollars to support the continued broadening in ownership of Hydro One; and
- The consolidation of fiscally neutral agencies – the Ontario Energy Board and the Independent System Operator.

Together, these three spending areas account for 98% of the Ministry's 2017-18 allocation.

2017-18 Allocation Breakdown (excluding Operating Assets)
$2,049.9 million



Spending Patterns and Timing Considerations for Vote/Item 2905-01 Electricity Price Mitigation

The Ministry announced Ontario's Fair Hydro Plan in March 2017, which includes the following rate mitigation initiatives:

- Ontario Electricity Support Program;
- Rural or Remote Rate Protection Program;

- Ontario Rebate for Electricity Consumers; and
- On-Reserve First Nations Delivery Credit.

The Ontario Rebate for Electricity Consumers began January 1, 2017; the remaining initiatives were implemented as of July 1, 2017.

As of Q1, $143.5 million of expenses were incurred in Vote/Item 2905-01, all from the Ontario Rebate for Electricity Consumers program. This amount represents 9.8% of the Vote allocation because all other program only began on July 1, 2017. The spending rate for Vote 2905-01 should draw near to the Ministry's Q1 Risk-based Outlook in the subsequent quarters as the new initiatives begin to incur expenses in Q2. The Ministry will monitor its program spending and will return to TB/MBC to report on changes in forecast should additional funding or savings be identified.

Vote/Item 2905-01 also includes an allocation for the Northern Ontario Energy Credit (NOEC). NOEC is delivered by the Ministry of Finance. ENERGY will work closely with the Ministry of Finance to monitor and update NOEC cost forecast on a timely basis.

The rate mitigation initiatives are tied to legislation that entitles recipients to funding and the actual costs will depend on demand and external factors (e.g. electricity prices, consumption, general economic and demographic conditions.)

Spending Patterns and Timing Considerations for Vote/Item 2906-01 Strategic Asset Management

The Ministry's Vote/Item 2906-01 includes the allocation to support the Province's asset transformation mandate. The majority of expenditures under this Vote are one-time transactions.

As of Q1, the Ministry incurred minimal expense in Vote 2906-01. Although the final share sales for Hydro One was completed in May 2017, expenses are still being finalized. The following asset transformation costs are still to be recorded in 2017-18, and amounts are still being firmed up at this time:

- Underwriting fees and legal expenses for the Province's final offering of Hydro One shares;
- Legal and financial expenses to support the Ministry's negotiations with Indigenous groups; and
- Costs associated with finalizing the Hydro One Brampton merger, such as legal and other expenses.

Vote/Item 2906-01 also includes $180 million in Transfer Payments for First Nation participation in the Hydro One sale - $45 million for a Cash Contribution to First Nations and $135 million as a Conferred Benefit to First Nations. These Transfer Payments have not been made and are expected to be expensed no later than December 29, 2017.

Timing Considerations for Other Spending Areas

The allocations in Vote 2901-01(Ministry Administration) and Vote 2902-01(Energy Development and Management) are for the Ministry's own spending to deliver on its mandate and commitments. Spending is contingent on priorities and may fluctuate quarterly based on project timelines.

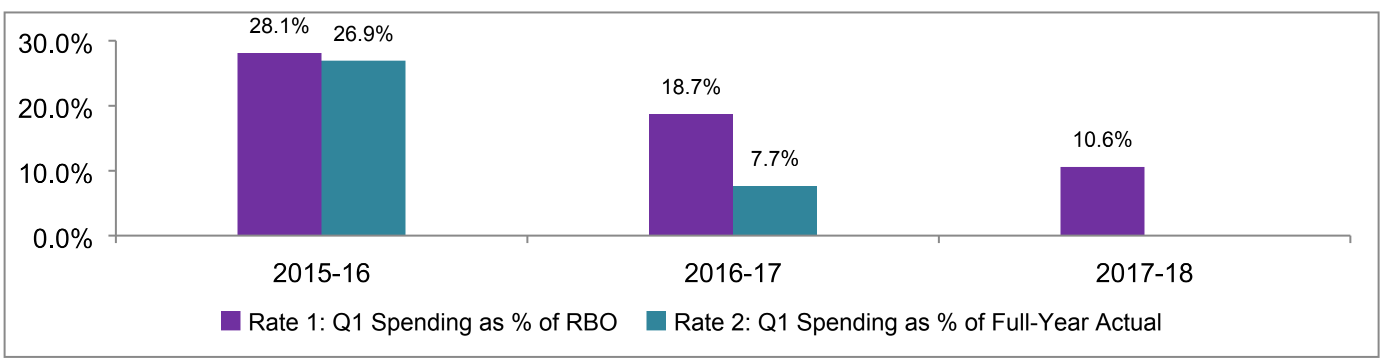
As of Q1, the spending rate is below the Ministry average while projects ramp up. The Ministry anticipates incurring most of its priority spending in later quarters.

Spending rates for consolidated agencies are projected to have small variances between the quarters.

Based on historical trends and risks identified in the current fiscal year, the Ministry is not anticipating underspending in these areas.

<u>Comparative Analysis with Prior First Quarters – Ministry Wide</u>

In 2017-18, the Ministry's spending outlook increased by $1,669.6 million to $2,049.9 million, from the 2016-17 spending outlook of $380.3 million. The chart below illustrates the Ministry's Q1 Spending as a percentage of Q1 Risk-based Outlook (RBO) and full-year actuals:



For 2017-18, the Ministry's First Quarter spending (Rate 1), as a percentage of the Q1 RBO is 10.6%. This is driven by the Ministry's rate mitigation initiatives which were introduced in 2017-18, with a large portion of the programs only coming into effect as of July 1. The Ministry's First Quarter spending for 2015-16 and 2016-17 was 28.1% and 18.7%, respectively. These are not comparable given the significant program changes this year.

Comparative Analysis with Prior Years – by Vote/Item

The Ministry did not incur material underspending in any of its Votes/Items for 2015-16 and 2016-17 that would be recurring or applicable to 2017-18.

Part 2: High Likelihood Risks (Pressures and Savings)

The Ministry identified the following high likelihood risks in its Q1 RBO. The Ministry will continue to monitor these pressures and seek internal offsets in Vote/Item 2902-01, Energy Development and Management, by delaying other projects. If needed, the Ministry may seek TB approval for funding increase with offset from within to address these pressures.

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	-	-	-

*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, 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.

- As the Fair Hydro Plan was announced and introduced in 2017-18, this risk is new to this fiscal year. To date, significant legal costs have been incurred. The Ministry is projecting a $2.5 million pressure from the 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.

Cap and Trade Implementation Costs — **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	-	-	-

*As reported in prior years

- 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 to 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	-	-	-

*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.

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	-	-	-

*As reported in prior years

- The Ministry is representing Ontario at the National Energy Board (NEB) hearing on TransCanada's Energy East projects. The Province is required to be present at 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.

- It is anticipated that the hearings will commence in the summer/fall of 2017 and costs will materialize once the hearings have begun. The costs are expected to be realized until the hearings are complete, for which the date is unknown at this time.

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

- The costs of this pressure are policy related, and thus will impact Vote/Item 2902-01, Energy Development and Management.

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**	**-**	**-**	**-**

*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. To be successfully implemented, the program requires dedicated resources to cover a number of critical responsibilities. These resources will provide financial support, communications and marketing support, as well as support for policy and program development. The Ministry had 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**	**-**	**0.80**	**0.95**	**0.95**	**-**	**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, and 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**	-	-	-

*As reported in prior years

- Tennant Energy LLC has 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, through measures and actions taken by the Government of Ontario in relation to the Feed-in tariff program and the Green Energy Investment Agreement, violate Article 1105 of NAFTA. 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, and as a result the costs will likely be realized beginning in the third quarter of the current fiscal year. The costs are expected to continue until the arbitration is complete, but considering the length of the arbitration is undetermined at this time, the pressure may continue into the next fiscal year.

- 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.