2017-18 Program Review, Renewal & Transformation

Ministry of Energy Overview

Deputy Minister (signature)

Minister (signature)

Date

Date

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About the Ministry

- The Ministry of Energy is a policy development and implementation ministry. It delivers the government's top energy priority – providing Ontarians with a clean, reliable and affordable supply of energy through the implementation of the Long-Term Energy Plan (LTEP).

- With just over 200 FTEs, the Ministry oversees a complex energy portfolio with a $20 billion Electricity Sector, and a Natural Gas sector with about 3.5 million residential, commercial and industrial natural gas consumers.

- The Ministry delivers the majority of its energy policies and initiatives through its ratepayer funded agencies and entities.

Ministry Objectives and Activities

- The Ministry's commitment to the development of a diverse supply mix, including more renewable energy sources, and putting energy conservation first are cornerstones of Ontario's balanced plan to provide clean and reliable energy system for all Ontarians.

- The Ministry develops and advises on all aspects of energy policy for Ontario, including:
  - the development and implementation of the Long Term Energy Plan;
  - rate mitigation measures for residential electricity consumers, such as the Ontario Electricity Support Program and the Ontario Rebate for Electricity Consumers;
  - helping to support a dynamic and competitive business climate through industrial electricity rate mitigation programs and initiatives;
  - investing in conservation and energy efficiency before building new generation, transmission and distribution infrastructure, where cost-effective;
  - helping to develop a strong renewable energy sector, including over 30 solar and wind manufacturers;
  - modernizing the province's transmission and distribution grids;
  - upgrading and refurbishing existing nuclear generation assets;
  - working with other provinces to explore potential opportunities that meet Ontario system needs and provide ratepayer value;
  - supporting the expansion of natural gas infrastructure to service more communities;
  - engaging Indigenous communities to play an active role in the energy sector; and
  - facilitating future tranches of Hydro One shares.

- The Ministry also oversees the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), and represents the shareholder, the provincial government, in dealings with Hydro One and Ontario Power Generation (OPG).

Ministry of Energy Revenue Contributions

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.

* Includes other elements including Provincial benefit from Deferred Tax Asset, payment of departure tax, etc.

Ministry-Level Key Performance Indicators

	Small-scale renewable energy	Energy conservation	Costs of electricity	Maintaining low emissions	Strategic asset management
Key Performance Indicator	**Support transition from standard offer procurements to market based net metering program**	**Continue to increase energy efficiency and conservation in Ontario**	**Annual growth of electricity costs to consumers and business in line with 2013 LTEP forecasts**	**Reduction in carbon dioxide (CO2) emissions levels relative to established targets**	**Proceeds raised from sale of Hydro One against targets**
Outcome Measures	**Current Value:** 9 MW of net metered capacity **Target Value:** 45 MW of net metered capacity expected by 2020	**Current Value:** 9.9TWh in 2014 **Target Value:** 30 TWh by 2032	**Current Value:** $141/MWh in 2015 **Target Value:** $188/MWh by 2032	**Current Value**: 10.2 Mt in 2013 **Target Value:** 7.96 Mt by 2032	**Current Value:** $7.3 billion in 2016 **Target Value:** $9 billion by conclusion of the broadening process
Outcome Statement	Transitioning the deployment of small-scale renewable generation to the updated net metering regulation will enable individuals and organizations to generate their own electricity and reduce their bills while contributing to Ontario's clean energy economy and Climate Change Action Plan.	Conservation is the cleanest and most cost-effective energy resource and offers consumers a way to reduce their energy bills and reduces the need to build new electricity infrastructure.	Prudent long-term planning and rate mitigation measures will help limit increases in electricity costs for residential, commercial, institutional and industrial electricity consumers.	By refurbishing emission-free nuclear capacity and sourcing clean renewable power, Ontario will maintain a low emissions profile and achieve Green House Gas (GHG) emission reduction targets.	Broadening the ownership of Hydro One raises funds for the Trillium Trust investments in infrastructure and helps pay down debt.

Ministry Goal

Providing Ontarians with a clean, reliable and affordable supply of energy

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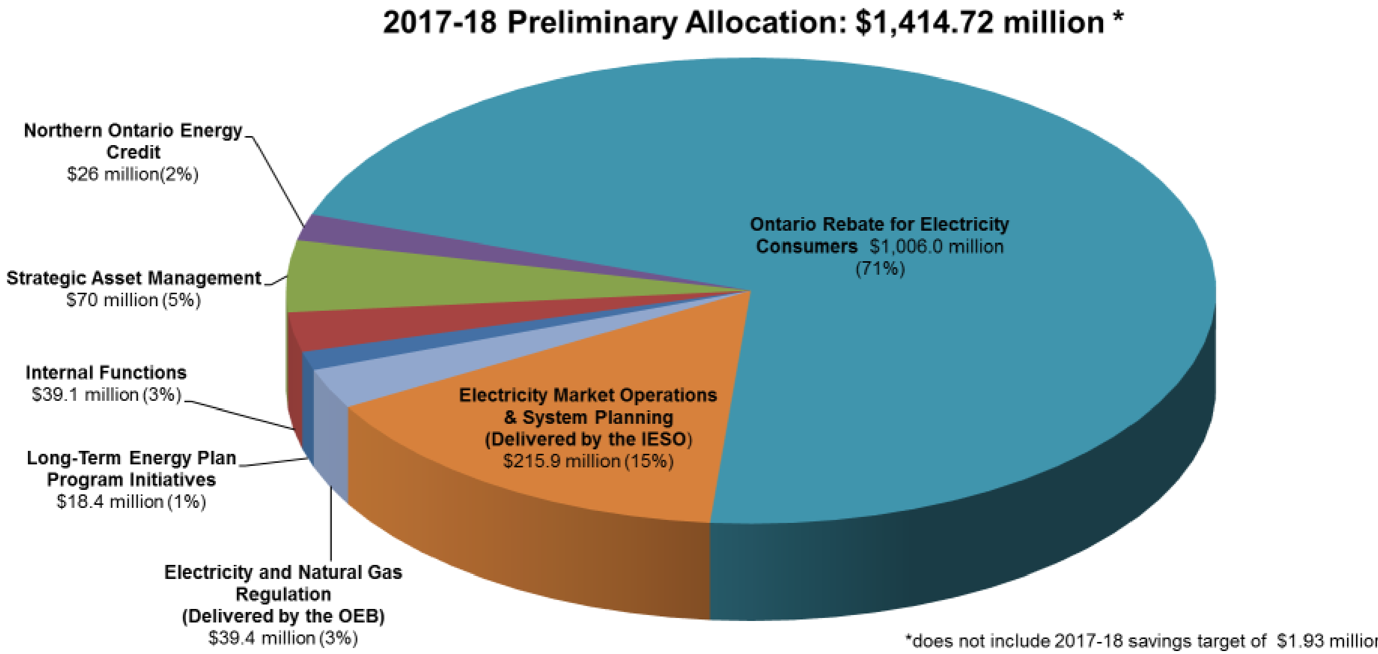
Current State of Ministry Preliminary Allocation (2017-18)

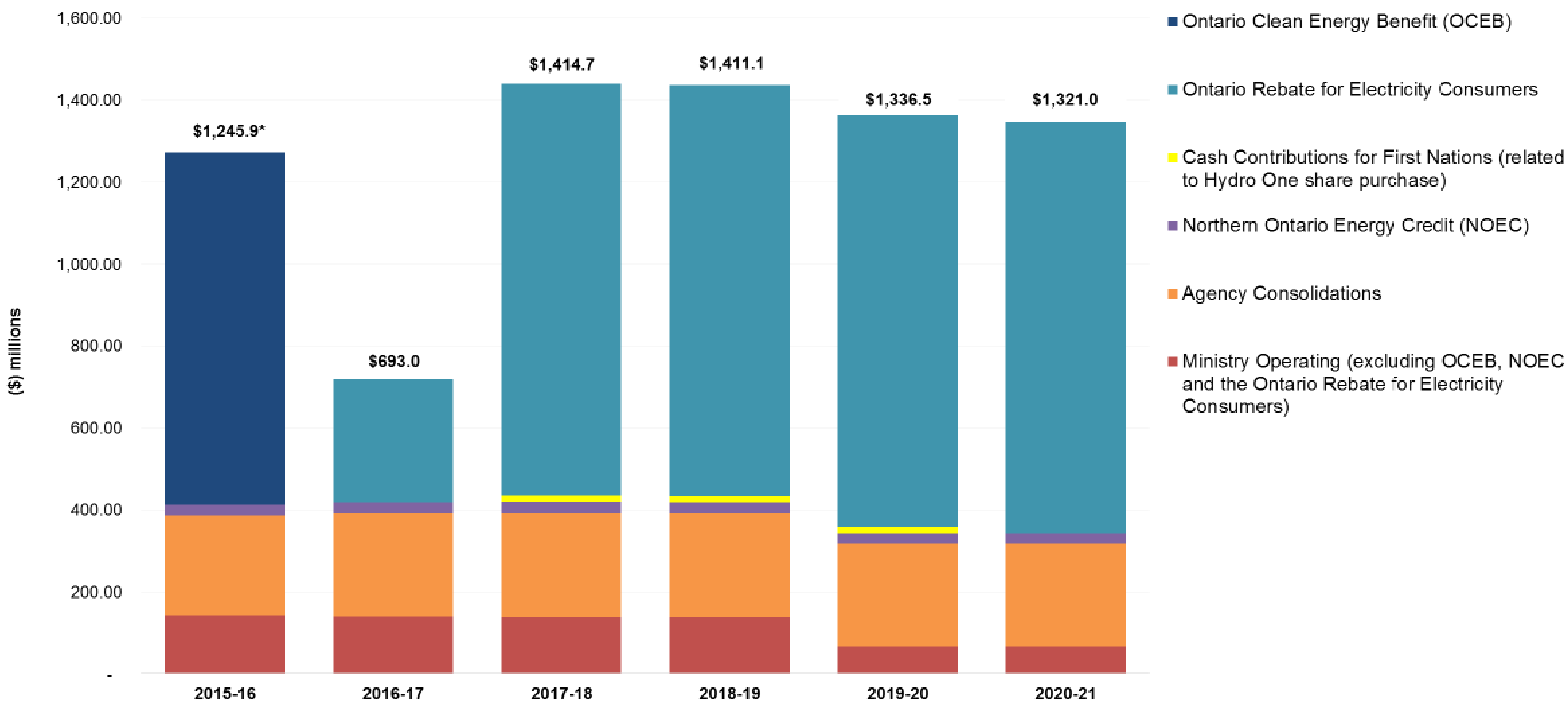


- Only 9% of the allocation is for the Ministry's own spending to deliver on its mandate and commitments. The Ministry is highly effective at running its activities on a small budget and with just over 200 FTEs.

- 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.

Preliminary Multi-Year Allocation (2015-16 to 2020-21)



* The Ministry's 2015-16 allocation also included a $2.6 billion expense for a capital contribution to Hydro One Limited that is not shown here.

- The Ministry already received the following as part of its preliminary allocation:
  - Increase of $1,006 million for the implementation of the Ontario Rebate for Electricity Consumers; and
  - 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.

Achieving 2017-18 Savings Target

- 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:

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

- Historically, the Ministry has strategically managed underspending to:
  - offset additional pressures related to government priorities (e.g., the Ministry was directed to manage from within its existing allocation in 2015-16 for resources related to Hydro One);
  - fund pressures that are unforeseen and unavoidable (e.g., energy legal challenges including, NAFTA and Windstream); and
  - Reallocate to high priority program spending (e.g., the Ministry was able to fund Smart Grid Fund Round 3 using underspending in 2015-16).

Key Decision: Ontario Rebate for Electricity Consumers

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.

Millions ($)	2017-18	2018-19	2019-20	2020-21
Preliminary Allocation	1,006	1,004	1,004	1,004
Updated Forecast	1,100	1,100	1,200	1,200

* The Ministry was directed to report back during the 2017-18 PRRT process on updated future year impacts.

Key Decision: Ontario Rebate for Electricity Consumers (con't)

- An increase of $3.11 million in operating expense for permanent staffing resources and operational costs, including $0.41 million in salary and wages and $2.5 million in administration costs in 2017-18 and onwards.
  - The Ministry is requesting 4 permanent FTEs that will cover a variety of positions critical to program delivery development of the Ontario Rebate for Electricity Consumers, including:
    - Policy and program development, providing direction to 72 local distribution companies (LDCs) and 10 Independent Power Authorities to develop specific payment and billing mechanisms, in addition to managing the relationships with service providers to ensure that any identified issues are addressed and resolved.
    - Financial support to track and monitor up to 400 data elements each month in order to know how much funding has been provided and to what entities, and tracking LDC payments and settlement statements based on information received from the IESO.
    - Communications support to handle internal and external program stakeholders.
- The Ontario Rebate for Electricity Rebate program does not have an end date and requires permanent resources (funding and staffing) in out-years.

Key Decision: Hydro One Report Back

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%.

- The Ministry requires additional out-year funding to continue delivering on the Province's assets management and transformation strategy related to Hydro One, including;

Item	Request
Secondary offering costs (including underwriting costs, consulting costs and other services)	$70 million increase (the Ministry has an existing allocation of $70 million for 2017-18, this request brings the total allocation to $140 million for 2017-18)
Staffing and operational costs	Permanency of 5 FTES and associated costs of $0.93 million
Cash contributions for First Nations Note: Ministry will decrease its allocation for the cash contributions to First Nations in 2018-19 and 2019-20 by $15 million each year	$30 million increase in 2017-18
Conferred benefit to First Nations	$135 million increase in 2017-18

Key Decision: Hydro One Report Back (con't)

- $70 million expenditure increase in 2017-18 is required to provide the Ministry with flexibility related to its share sale strategy. This will bring the allocation in 2017-18 to $140 million for this program.
  - The government may be in a position to complete the broadening of Hydro One in 2017-18 and will require the appropriate allocation to support this effort, in the event of a larger sale.
  - Expenses related to the Ministry's share sale strategy is fiscally neutral and will be offset from the proceeds of future offerings of Hydro One.

- Permanency of the 5 FTEs the Ministry received during the 2016-17 PRRT process for 2017-18 and onwards to support the government's asset strategy.
  - The Secretariat was created in order to support the Minister on both financial and governance matters. While some of that role relates to temporary initiatives, such as facilitating the share sale strategy, the Secretariat is required to provides ongoing advice and support related to:
    - Exercising shareholder rights including participating in shareholder meetings, election of directors etc., ensuring the Province operates in accordance with its rights and obligations under the Governance Agreement;
    - Effective management of holdings; ensuring the Province operates in accordance with the Registration Rights Agreement;
    - Ongoing administration of any agreements relating to the broadening of ownership of Hydro One such as potential agreements with Chiefs of Ontario and/or Metis Nations of Ontario; and
    - the Province's role and responsibilities as the shareholder of OPG, including analysis of OPG's business plans, and conducting due diligence and analysis on new OPG initiatives (e.g., borrowing platform).
  - The Secretariat requires technical skill sets with specialized knowledge in areas such as capital markets, corporate finance and financial analysis. The Ministry requires permanent FTEs to be able to compete for talent.
  - The Ministry received funding for these FTEs until 2018-19, permanent funding of $0.93 million in operating expense for staffing and operational costs for the Investment and Governance Secretariat is being requested from 2019-20 and onwards.

Key Decision: Hydro One Report Back (con't)

- $30 million in operating expense in order to accelerate the full cash contribution of up to $45 million to First Nations in 2017-18.
  - As part of its 2017-18 preliminary allocation, the Ministry received a $45 million transfer payment over three years to First Nations, as a cash contribution. Timing of payments was recently renegotiated and the revised timing contemplates a one-time contribution of up to $45 million.

- $135 million in operating expense for conferred benefit amounts to First Nations.
  - The difference between the purchase price for First Nations ($18 per share) and the market value of shares at the time of closing. Treasury Board Secretariat is in the process of obtaining a regulation prescribing a new class of non-cash expense, intended to best serve public interest for transparency and accountability.

- The Ministry is creating new Transfer Payment lines to support these transactions.

Key Decision: Greenhouse Gas Reduction Account (GGRA)

Request: (1) Funding for the Cap and Trade Proceeds Recycling to Keep Electricity Prices Affordable Initiative; and
(2) Funding for the Electric Vehicle Overnight Charging Rebate Program.

- In September 2016, the Ministry completed, and submitted to MOECC, the GGRA Intake Form and Scorecard for its initiatives.
- These initiatives were included in Tranche 1 for approval by MOECC.
- The Ministry requires out-year funding, offset from GGRA, to deliver these initiatives:
  - **Cap and Trade Proceeds Recycling to Keep Electricity Prices Affordable Initiative**
    - Total CCAP funding requirement: $1,107 million (between 2017-18 to 2020-21)
    - Funding estimate for 2017-18: $249 million
  - **Electric Vehicle Overnight Charging Rebate Program**
    - Total CCAP funding requirement: $15 million (between 2017-18 to 2021-22)
    - Funding estimate for 2017-18: $2.15 million
- The Ministry will be creating Transfer Payment lines to support the above initiatives.

Key Decision: Other Housekeeping Items

Natural Gas Access Loans

- The Ministry of Energy requires the creation of the following Operating Asset and Operating Expense items, with $1,000 placeholders, for the establishment of the Natural Gas Loan program:
  - An Operating Asset items for Natural Gas Loan disbursements; and
  - An Operating Expense, and a new Transfer Payment line, for Natural Gas Loan interest incentives.
- The Ministry has an existing Bad Debt Expense item in Vote 2902, Energy Development and Management.
- Cost incurred by the Ministry of Energy for the Natural Gas Loan program will be offset by the Ministry of Infrastructure or the Contingency Fund.

Temporary FTE transfer to MAG

- The Ministry of Energy will continue with the temporary transfer of 1 FTE in 2017-18 to the Ministry of the Attorney General to provide legal services support.
- The FTE will return to the Ministry of Energy on April 1, 2018.

Temporary FTE transfer to MGCS

- The Ministry of Energy will temporarily transfer 2 FTEs to the Ministry of Government and Consumer Services to support the Energy and Water Reporting and Benchmarking Project.
- The FTEs will return to the Ministry of Energy on April 1, 2018.

IT-Rationalization Initiative transfer to MGCS

- The Ministry of Energy will transfer $9,700 in 2017-18 and ongoing to the Ministry of Government and Consumer Services for the IT-Rationalization Initiative.
- As a consumptive service, the IT-Rationalization Initiative recovers base budget from clients/partners to ensure cost reductions remain net neutral to all parties.

Stakeholder Management / Engagement Plans

Key Stakeholder Groups	Issues / Considerations	Stakeholder Engagement / Communications Strategy
Residential, Farms and Small Businesses Consumers	• Necessary investments in modernizing our electricity system have lead to increases in the cost of electricity service for residential, farm and small business electricity consumers. • Concerns about cost and safety of nuclear generation projects compared to other supply alternatives.	• 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.
Commercial and Industrial Consumers	• Necessary investments in modernizing our electricity system have lead to increases in the cost of electricity service for commercial and industrial electricity consumers.	• Extensive province-wide consultations for the updated Long -Term Energy Plan. • Existing programs provide some relief to large industrials. Recently announced ICI program expansion will extend relief to some smaller consumers. • One-off meetings with industry associations and large consumers.
General Public	• Conferred benefit amounts to First Nations, being able to purchase shares at a reduced price compared to market value. • Accelerating cash contributions to First Nations from up to three annual payments to one full payment.	• Conferred benefit amounts are disclosed to best serve public interest for transparency and accountability. • Purchase price is above the Province's book value for the shares as a result this has no fiscal impact. • Does not impact the Province's expectation to raise up to $9 billion to support infrastructure investment and pay down debt. • No changes to amounts have been contemplated, only timing of payments.
Shareholders / Investors	• Increases in costs associated with potentially accelerating share sales.	• The Ministry requires flexibility to maximize value.