Ontario

MINISTRY OF
ENERGY

2017-18 Second Quarter Reporting

October 2017

Q2 Instructions

- The Province's has committed to achieve 2017-18 Year-End Savings target of $1.2 billion.

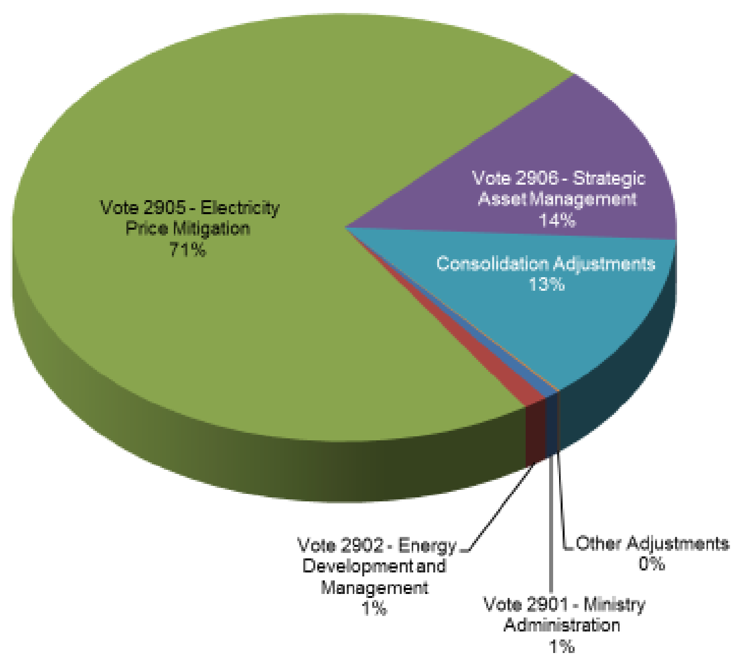
- **5% holdback on discretionary spending**
  - In Q1, Ministries were required to place an internal holdback of 5% on planned discretionary spending. Energy had identified a $6.98 million internal holdback which would be managed through Vote 2906, Strategic Asset Management.
  - Per Q2 instructions, TBS has indicated payroll is not considered a part of discretionary spending. By removing payroll, the Ministry's internal holdback is reduced to $5.90 million.

- Components of Second Quarter Reports are due to TBS in two phases:
  - **Phase I Submission (due October 13, 2017):**
    - Fiscal Position Narrative;
    - 2017-18 Risk-Based Outlook; and
    - Report Backs on spending in Vote/Item 2902-01, Policy and Programs and Vote/Item 2906-01, Strategic Asset Management and Transformation
  - **Phase II Submission (due October 31, 2017):**
    - Fiscal Position Details including forecasting approach, assumptions and cost drivers;
    - 2017-18 Risk-Based Outlook Details and Spending Rate Report;
    - Details on Planned Discretionary Spending;
    - Report back – Green Investment Fund;
    - Provincial Agency Risk reporting; and
    - In-Year Capital Forecasting and Reporting.

Ministry Narrative: 2017-18 Fiscal Position

- The largest component of the Ministry's allocation is its rate mitigation initiatives – accounting for 71% 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 13% 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.



Q2 Pressures & Offsets (refer to print out)

2017-18 Q2 Risk-Based Outlook Summary
Ministry of Energy

High Likelihood Expense Risks $ Millions	2017-18 Q1 INTERNAL	2017-18 Q2 INTERNAL	2017-18 Q2 (TBS)
Approved 2017 Allocation (Including Consolidations and Adjustments)	**2,049.85**	**2,049.85**	**2,049.85**
Less: Consolidations	-264.10	-264.10	-264.10
Less: Greenhouse Gas Reduction Account Reclassification	-2.15	-2.15	-2.15
Less: Northern Ontario Energy Credit	-26.00	-26.00	-26.00
Less: Ontario Rebate for Electricity Consumers	-939.00	-939.00	-939.00
Less: Ontario Electricity Support Program	-140.00	-140.00	-140.00
Less: Rural or Remote Rate Protection Program	-344.00	-344.00	-344.00
Less: On-Reserve First Nations Delivery Credit	-15.00	-15.00	-15.00
Less: Cash Contribution to First Nations	-45.00	-45.00	-45.00
Less: Conferred Benefit to First Nations	-135.00	-135.00	-135.00
Less: Salaries and Benefits		-21.53	-21.53
Ministry Discretionary Spending	**139.60**	**118.07**	**118.07**
Key High-Likelihood (>90%) Risks: Pressures & Savings			
COMMS Projects			
Bill Redesign Initiative	0.30	0.30	
SNAP Projects			
SGF Technical Support	0.52	0.52	
The Study of Energy Storage in Ontario Distribution Systems	0.02	0.02	
OEB Mandate Review	0.03	0.03	
PTO Energy Coordinators	0.40	0.40	
Shakerhill Partners	0.19	0.19	
Energy Technology Trade Project	0.20	0.20	
Social Return on Investment (SROI)	0.01	0.01	
TATA Power/Ryerson Distribution Project	0.12	0.12	
Emerging Trends Research	0.10	0.10	
Toronto Region Board of Trade TAP Program	0.03	0.03	
CRED Projects			
Cap and Trade Implementation Costs - Energy & Water Reporting and Benchmarking - IT Systems and Technical Support	1.52	1.52	1.52
Cap and Trade Implementation Costs - Energy & Water Reporting and Benchmarking - Partnerships	0.10	0.10	0.10
Cap and Trade Implementation Costs - Energy & Water Reporting and Benchmarking - Education	0.05	0.05	0.05
Cap and Trade Implementation Costs - EWRB - Procurement of Expert Services on Ontario Large Building Sector Data	0.07	0.05	0.05
Green Button Technical Adoption of Standard	0.33	0.48	
BPS Sharepoint & IT Support & BPS AODA	0.12	0.12	
BPS Data Analysis	0.09	0.00	
Bloomberg New Energy Finance All Services (Old & New Subscription)	0.11	0.07	
Study of Energy Efficiency for Drinking Water and Wastewater Treatment Plant Equipment	0.08	0.15	
Market Analysis of Ontario's Renewable Energy Sector	0.05	0.05	
Green Energy Investment Agreement (GEIA) Annual Jobs Auditing for 2015 and 2016	0.04	0.04	
Municipal Property Assessment Corporation (MPAC) Data for a Home Energy Rating and Disclosure Program	0.03	0.03	
Considerations for Deploying In Front Of the Meter Conservation Technologies in Ontario	0.03	0.03	
Procurement of consulting services for design of Home Energy Rating and Disclosure program	0.03	0.03	
NAFTA Arbitration: Tennant Energy LLC - Legal Charges	0.35	0.35	0.35
ESP Projects			
Default Emission Factors	0.05	0.05	
Plexos Ontario Electricity Model	0.08	0.08	
Energy East Consulting (Cancelled)	0.85	0.00	0.00
Weekly Fuel Price Survey	0.02	0.02	
Ministry Initiatives			
Fair Hydro Plan Third-Party Legal Services (Potential Savings)	2.50	2.50	2.50
Long Term Energy Plan Costs (SNAP & COMMs Projects)	0.42	0.42	0.42
Early Decant of Energy Staff from MacDonald Block	1.25	1.25	1.25
Resources to Support Ontario Rebate for Electricity Consumers Program	0.61	0.61	0.61
Offset 1: Offset Ministry Pressures from Within	-4.92	-4.92	-6.84
Offset 2: Savings related to CI and GEI from CRED (to offset CRED expenses)	-1.50	-1.50	
Offset 3: 5% Holdback (to be offset from H1 Savings)			-5.90
Total High Likelihood Risks	**4.26**	**3.48**	**-5.90**
Risk-Based Outlook	**143.86**	**121.56**	**112.17**
Risk-Based Outlook as a % of Ministry Discretionary Spending	**103.1%**	**103.0%**	**95.0%**

See attached for a larger copy

Ministry Narrative: Managing within Allocation with Key Pressures

The Ministry has identified a $5.90 million internal holdback which will be managed through Vote 2906, Strategic Asset Management, while monitoring the following non-recurring pressures to be managed using internal resources:

1. Fair Hydro Plan (FHP) Third-Party Legal Service:	$2.50 million
2. NAFTA Tennant Lawsuit:	$0.35 million
3. Cap and Trade Implementation Costs – EWRB:	$1.72 million
4. Early Decant of Energy Staff from MacDonald Block:	$1.25 million
5. Long-Term Energy Plan:	$0.42 million
6. Resources to support OREC:	$0.61 million
Total additional pressures to be managed from within	$6.84 million

Internally, it is unlikely that the full pressures will materialize by year-end if projects are not underway by Q2/Q3. Should it be needed, the Ministry will seek TB approval for funding increase with offset from within.

Summary of Electricity Rate Mitigation Allocation

Electricity price mitigation programs are all organized under the same vote-item, can be used to offset each other.

Ontario Rebate for Electricity Consumers ($M)	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Original Forecast *(as of Printed Estimates)*	939.00	882.00	882.00	895.00
Revised Forecast *(revised October 2017)*	883.00	860.00	861.00	871.00
+ Surplus / - Deficit	**56.00**	**22.00**	**21.00**	**24.00**

Ontario Electricity Support Program ($M)				
Original Forecast *(as of Printed Estimates)*	140.00	261.00	325.00	375.00
Revised Forecast *(based on 60% uptake)*	40.00	230.00	264.00	288.00
+ Surplus / - Deficit	**100.00**	**31.00**	**61.00**	**87.00**

*Ministry forecasts $40 million of the 2017-18 allocation will be used this fiscal and will in a better position to identify savings during Q3.

First Nation Delivery Credit ($M)				
Original Forecast *(as of Printed Estimates)*	15.00	20.00	20.00	20.00
Revised Forecast *(based on H1 Rate Application – full approval)*	15.00	19.60	20.90	21.90
+ Surplus / - Deficit	**0.00**	**0.40**	**-0.90**	**-1.90**

Distribution Rate Protection ($M)				
Original Forecast *(as of Printed Estimates)*	162.00	222.00	228.00	234.00
Revised Forecast *(based on H1 Rate Application – full approval)*	172.00	260.10	291.70	309.00
+ Surplus / - Deficit	**-10.00**	**-38.10**	**-63.70**	**-75.00**

Rural or Remote Rate Protection ($M)				
Original Forecast *(as of Printed Estimates)*	182.00	250.00	256.00	263.00
Revised Forecast *(based on H1 Customer Projections)*	179.80	238.70	239.90	241.20
+ Surplus / - Deficit	**2.20**	**11.30**	**16.10**	**21.80**

Northern Ontario Energy Credit				
Original Forecast *(as of Printed Estimates)*	26.00	26.00	26.00	26.00
Revised Forecast *(no change)*	26.00	26.00	26.00	26.00

Total Original Forecast	1464.00	1661.00	1737.00	1813.00
Total Revised Forecast	1315.80	1634.40	1703.50	1757.10
+ Surplus / - Deficit	**148.20**	**26.60**	**33.50**	**55.90**

Key Decision Points

1. **Identify Savings from the Updated Social Programs' Forecasts**

   ENERGY's 2017-18 allocation for its Social Programs is $1,464 million. This includes allocations for OREC, OESP, RRRP, DRP, FNDC and NOEC.

   - **Savings from OREC, DRP and RRRP**
     - Updated forecasts has identified $48.2 million in savings in these programs.
   - **Savings from OESP**
     - The 2017-18 allocation is $140 million; ENERGY projects to spend $40 million of its allocation once the variance account is depleted.
   - ❑ **Recommendation:** Ministry to identify $148.2 million in savings from the Social Programs.
     - Note: TBS has indicated they do not plan to minute out funding from Ministry allocations at Q2. TBS will engage in discussions with Ministries should they require funding realignments.

2. **Identify Savings from H1 Services (Strategic Asset Management)**

   - Hydro One Services budget for 2017-18 is $100 million.
   - In Q2, the Ministry has identified approximately $30 million in savings. This underspending may be needed to offset potential risks related to negotiations with Métis Nation of Ontario (MNO).
     - Potential settlement costs is estimated to be between $25-30 million.
   - ❑ **Recommendation:** Ministry to identify potential in-year risk associated with MNO negotiations with offsets from Strategic Asset Management – Services.
   - The ministry will also apply its 5% holdback requirement of $5.90 million against the H1 Services savings.

Other Phase 1 Components: Report Backs

- Ministry is required to complete two report backs during Phase 1 on anticipated pressures, savings, and timing of service spending.

  - **Vote/Item 2902-01, Energy Development and Management**
    - The Ministry is identifying $6.84 million in non-recurring pressures for 2017-18 (as identified on slide 5). The Ministry will continue to monitor these pressures and find internals savings to manage.

  - **Vote/Item 2906-01, Strategic Asset Management**
    - Although the final share sale for Hydro One was completed in May 2017, expenses related to underwriting fees, Indigenous participation and Hydro One Brampton merger are still being finalized.
    - In Q2, the Ministry is identifying approximately $30 million in savings. This underspending may be needed to offset potential risks related to negotiations with Métis Nation of Ontario (MNO), which could use up the entire savings.
    - The Ministry will report back during Q3 with further details.

Next Steps

- Deputy Minister approval of Phase 1 submission by October 13, 2017
  - Fiscal Management Plan (Narrative of Overall Fiscal Position)
    - Report back on services spending in vote 2902 and vote 2906
    - Risk-Based Outlook (high likelihood pressures and savings)

- Corporate Services Division will work with divisions to provide remaining Q2 requirements for the TBS deadline of October 31, 2017. As part of the second phase of Q2, CSD will provide an update on actual spending to date up to Q2.

Appendix - Q2 Internal Holdback on 5% of Discretionary Spending

Standard Account, TP	Total Allocation 2017-18 Estimates ($M)	Discretionary Spending Q1 ($M)	Discretionary Spending Q2 ($M)
Vote 2901-01			
Salaries and Wages (51)	6.80	6.80	Not Discretionary
Employee Benefits (52)	0.85	0.85	Not Discretionary
Transportation & Communication (53)	0.31	0.31	0.31
Services (54)	11.12	11.12	11.12
Supplies & Equipment (55)	0.34	0.34	0.34
Total	15.08	15.08	7.42
Vote 2902-01			
Salaries and Wages (51)	12.31	12.31	Not Discretionary
Employee Benefits (52)	1.50	1.50	Not Discretionary
Transportation & Communication (53)	0.39	0.39	0.39
Services (54)	6.50	6.50	6.50
Supplies & Equipment (55)	0.31	0.31	0.31
Transfer Payments (57)	-	-	-
Aboriginal Engagement Agreements	0.20	0.20	0.20
Green Energy Initiatives	1.35	1.35	1.35
Conservation Initiatives	1.90	1.90	1.90
Total	24.46	24.46	10.65
Vote 2905-01			
Transfer Payments (57)	1,464.00	-	-
Ontario Electricity Support Program	140.00	Not Discretionary	Not Discretionary
Rural or Remote Rate Protection Program	344.00	Not Discretionary	Not Discretionary
Nothern Ontario Energy Credit	26.00	Not Discretionary	Not Discretionary
Ontario Rebate for Electricity Consumers	939.00	Not Discretionary	Not Discretionary
On-Reserve First Nations Delivery Credit	15.00	Not Discretionary	Not Discretionary
Total	1,464.00	-	-
Vote 2906-01			
Services (54)*	100.00	100.00	100.00
Transfer Payments (57)	180.00	-	-
Conferred Benefit Amount	135.00	Not Discretionary	Not Discretionary
Strategic Asset Management Indigenous Engagement	0.00	Not Discretionary	Not Discretionary
Cash Contribution for First Nations	45.00	Not Discretionary	Not Discretionary
Total	280.00	100.00	100.00
Total	**1,783.54**	**139.53**	**118.07**
Total Discretionary Spending Placed on Holdback (5% of Total)		**6.98**	**5.90**

*The Ministry has indicated in Q1 the holdback would be managed through Vote 2906-01, under Services.