

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

April 27, 2007

The School Energy Coalition is currently participating in hearings on 2007-10 transmission rates for Hydro One, 2008-12 distribution rates for Enbridge and Union, reviews of rates for a number of electricity distributors, and several other regulatory processes.

ONGOING MATTERS – NATURAL GAS

Enbridge 2007 Rates. Enbridge late-filed their 2007 rate application, seeking a 16.7% rate increase. The settlement conference ended in January with many major issues resolved, and an interim rate increase of about 2% approved. SEC took a leading role in those settlement discussions. Some material issues remained for the oral hearing, which concluded April 13th with final arguments. A decision by the Energy Board on those issues is expected in early June. Depending on the outcome, the final rate increase will, instead of being 2%, be somewhere between zero and 5% for schools. The latter would require that all remaining issues are found in favour of Enbridge.

During the course of the rate case, Enbridge has participated in a number of alternative issues processes called Consultatives. In the biggest one, involving \$600 million of customer care costs over the next six years, SEC, in negotiating on behalf of stakeholders, pushed for a comprehensive settlement. As a result customer care costs will likely be lower in the next five years than in the last five years. **For schools, this translates to a saving of about \$200,000 a year for six years, compared to the utility’s proposed costs for the same period.** In recognition of the contribution SEC and two other parties made to the process, the Energy Board has ordered an exception to its costs rules to ensure that almost all of the cost of participation is borne by Enbridge, rather than by the schools.

One aspect of the Enbridge 2007 case was deferred to a Phase II, currently going on, to deal with inter-affiliate

payments. That Phase will not affect 2007 rates, but may have an impact on rates in subsequent years. SEC has elected to play a minor role in that Phase.

Gas Multi-Year Rate-Setting. Rates for the two gas utilities for the period 2008-2012 are expected to be set, not by annual hearings, but by a formula that adjusts rates based on a combination of inflation, productivity, and other factors, with a “guaranteed” net benefit to ratepayers each year. This plan arose out of the 2004 Natural Gas Forum proceeding, in which School Energy Coalition was a very active participant. The Energy Board’s proposals for the rate mechanism largely mirror the SEC proposals at that time, but there remains some opposition from other parties.

Commencing in June, the actual applications for multi-year rates by the utilities will be filed, and these issues will be decided by the end of December. This is Ontario’s largest ever gas rate case. At stake is about \$10 billion of gas distribution rates over five years, more than \$200 million of which will be paid by schools. The difference between our proposals and those of some others could be as much as \$20 million for schools. As a result, SEC will treat this as one of its highest priorities.

ONGOING MATTERS - ELECTRICITY

Hydro One 2007-10 Transmission Rates. Hydro One has applied for a 5% increase in transmission rates in 2007 and a further 2% in 2008, plus inflation increases for the next two years after that. However, this is really a much larger increase, probably 10% in 2007, since their existing rates allowed them to over-earn by an average of \$70 million a year for the last four years. SEC, along with other ratepayer groups, is therefore seeking a rate reduction rather than an increase. A truncated settlement conference was largely unsuccessful. The oral hearing, which commenced late in April, is expected to be completed before the end of

May. Schools pay about \$25 million a year in their electricity bills for transmission costs, and the amount in dispute in this case is about \$2 million a year for schools for each of the next four years.

Individual Electric Utility Distribution Rates. After a consultation last fall, the Energy Board decided to allow all electricity distributors a 2007 rate increase of just under 1%. About 80 distributors have taken that offer. In the few cases where distributors have sought exceptions, SEC has reviewed their applications and made submissions on the reasonableness of their requests. In general the Energy Board has been responding by allowing those utilities the formula increase, and deferring until June a hearing on whether any further rate hike will be considered.

Electricity Multi-Year Rates. Under the current plan, 30 LDCs have been selected for a full rate review commencing this fall, with new rates effective 2008. Those 2008 rates will continue with adjustments for three years, while the Energy Board looks at the next 30 next year, and so on. The first group includes many of the largest LDCs. SEC will be active in all of those applications. In particular, SEC will continue to push for comparisons between the costs of various utilities. The Energy Board has recently, after much urging from SEC, published the first official comparison, and we will be seeking broader use of that tool.

Prior to the 2008 applications being filed, SEC intends to meet with as many of the distributors as possible, to discuss our concerns and promote a dialogue so that the hearings do not become too adversarial.

Erie Thames Powerlines. This utility filed a non-compliant rate application for 2006, and after many months of corrective action, finally got 2006 rates on January 1, 2007. The hearing panel refused to make those rates retroactive. SEC was active throughout the process. The utility has filed an appeal of the decision to refuse retroactivity, and SEC has opposed the appeal. A decision is expected in late May or early June.

Electricity Rate Design. The Energy Board, having last year ordered the filing of extensive cost allocation data by electricity distributors, has now embarked on a technical process to redesign rate classes for all distributors. This will involve a fundamental re-

thinking of many key issues, and will have winners and losers (including within sectors such as schools).

SEC will be heavily involved in this. We have already seen with the gas utilities how rate design can have a significant effect on the energy costs of schools. To that end, analyst Rachel Chen will be getting the latest in rate design training in San Diego this month, to enhance our resources going into this process.

Integrated Power System Plan. The filing with the Ontario Energy Board of the Ontario Power Authority's first Integrated Power System Plan is now expected in late summer or early fall. This plan will affect the \$125 million a year that schools pay in electricity commodity costs, so SEC will participate thoroughly in this regulatory review of the plan.

Ontario Power Generation Prices. The Energy Board has decided on a full cost of service review for these electrical generating assets, including the major nuclear and hydroelectric facilities. The rate application by Ontario Power Generation is expected this summer. There will be a hearing in the winter, culminating in new rates for the power generated by these facilities, likely as of April 1, 2008. About 60% of Ontario's electricity comes from these stations.

OTHER MATTERS

Sustainable Schools. School Energy Coalition Conservation Specialist Corinne Bassett has negotiated a "try it, you'll like it" type of arrangement with the Sustainable Schools program of Toronto Region Conservation Authority. Recent research in conjunction with Enbridge has shown that some of the best conservation opportunities for schools arise through management of operating procedures. The Sustainable Schools system is designed to provide schools with operations benchmarking and detailed energy operating information, so that boards can better manage energy use. One board has signed up under this new arrangement, and the TRCA program will be demonstrated at the OASBO conference in May.

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