OESC CSEO Ontario Education Services Corporation La corporation des services en éducation de l'Ontario

School Energy Coalition ("SEC")

Summary Status Report

September 30, 2024

Savings for Ontario School Boards

Q3 2024 was busy. The Toronto Hydro case was the focus, culminating in a deal that surprised everyone. Phase 2 of the Enbridge Rates case also heated up, and was in "hot" negotiations at the end of September. Meanwhile, the expert reports were filed for the first Cost of Capital Review in 15 years, plus the usual smaller cases. All told, ***savings for schools were $6.4 million.***

Upcoming is the resolution of Phase 2 of the Enbridge case, plus the start of Phase 3, in which a proposal to harmonize rates across the province will create winners and losers. Also, the decision on Cost of Capital will unroll in parallel with the filing of a controversial Enbridge conservation plan.

ONGOING MATTERS – NATURAL GAS

Enbridge 2024-2028 Rates. The final estimate of the impact of the Phase 1 component of the Enbridge multi-year rate case appears to be close to the initial amount of $11.6 million savings for schools. But, of course, there's more to come.

The government has passed its legislation overturning the OEB decision to end new connections subsidies. In parallel, Enbridge has amended its Motion to Review the main decision, and lost already on part of that revised motion. The OEB agreed with SEC and others that the decision to use existing depreciation methods was reasonable. The issue of whether merger-related spending should be recoverable from customers remains outstanding, with a decision expected in Q4.

The focus then turned to Phase 2, which centered around the rate adjustment formula, and a number of high dollar specific initiatives. At the end of September, the intervenors, led by SEC counsel Mark Rubenstein, were in the middle of intense negotiations with Enbridge. Any settlement agreement is scheduled to be filed November 1st, with a formal decision expected before the end of December. The result will be reported in the next Status Report.

Phase 3, which may have the biggest impact on individual schools and school boards, has been delayed by the prior processes. Now scheduled to start in Q1 2025, Phase 3 will deal primarily with two important issues: Enbridge's plans to reduce capital spending as required in Phase 1, and an Enbridge proposal to harmonize rates across the province as a result of the merger of Enbridge and Union Gas. In the latter case, while it is a zero-sum process, there will be substantial winners and losers between schools.

It is expected that the Q4 Status Report will be able to report on the results of Phase 2, and perhaps early indications of the impact of Phase 3.

Enbridge Conservation Plan. Enbridge has been pursuing conservation and energy efficiency programs for thirty years now, but gas usage continues to increase. In the last DSM (conservation) case, the OEB agreed with SEC that Enbridge is not producing sufficient results for the ratepayer money being spent on this. The OEB stipulated that the next plan must achieve at least a 1% reduction in gas use annually through conservation and energy efficiency.

Enbridge, with much weeping and gnashing of teeth, has delayed its new plan (2026-2030), and now proposes to file it by December. In it, their intention is to seek three times their current annual budget, but by the end of the five years reduce gas use by less than 0.8%. The bill increase for schools (not yet disclosed) may be as high as $2 million a year.

Further, although urged by the OEB to inject new and creative thinking into their next DSM plan, Enbridge will propose that they simply throw more money at programs that are mostly the same as in the past.

SEC is on record as saying this is simply not good enough. The plan to be filed is expected to be highly controversial, and broadly contested by environmental groups (insufficient results) and ratepayer groups (too high a cost) alike.

St. Laurent Reinforcement Project. Enbridge has filed an application to replace a major pipeline within the City of Ottawa. The last time they applied for approval for this same project, SEC, in conjunction with the City of Ottawa and Pollution Probe, was able to convince the OEB to refuse permission for this spending

Enbridge has filed an updated application with a much more comprehensive assessment of the condition of the existing pipeline and the need for the project. Written discovery process has taken place, and a Technical Conference is scheduled for late December, likely followed by argument. A decision is expected in Q1, 2025.

ONGOING MATTERS – ELECTRICITY

Toronto Hydro 2025-2029. Ontario's second largest electricity distributor, Toronto Hydro, applied for five years of new rates, which included a bill increase of $16.1 million for Toronto schools over that period.

This case represents the other side of the Energy Transition. If natural gas is declining, more electrical distribution infrastructure is implied. That, coupled with the normal cost pressures and higher inflation over the last years, formed the foundation for a very large proposed rate increase. In tough negotiations led by SEC counsel Mark Rubenstein, the intervenors and the utility agreed to a resolution of almost all issues. The deal balances the need to invest in a growing distribution system with the goal of keeping costs for customers down. The increase is still substantial, but much less than proposed, and for some schools may be partially offset by lower natural gas costs as schools increasingly embrace electrification. Savings for schools from this deal are about $6.0 million over five years.

Other Electricity Distributors. Three cases for smaller electricity distributors, Centre Wellington, Essex, and Festival, were also settled. Those cases will save schools a total of $360,000 in aggregate.

OTHER MATTERS

Cost of Capital. Cost of capital is comprised of the cost of debt and return on equity for regulated utilities. It is primarily a deemed amount, determined by a formula that is intended to reflect market-driven costs. The formula was last reviewed fully in 2009, and has been adjusted every year since then based on pre-determined inputs and market data.

Cost of capital, and the taxes on a portion of it, together make up a fifth of the average regulated utility rate, so about $60 million a year in costs for school boards. In light of the recent changes in the capital markets, particularly since Covid, the Energy Board embarked on a generic hearing process this year. Dueling expert reports from utilities, the staff of the Energy Board, and customer groups were filed, and a lengthy oral hearing started late in Q3.

After arguments are filed, a decision on a new or revised formula is expected in Q1, 2025.

Incremental Capital Module. When regulated utilities feel they need higher rates, over and above their formula rates, to cover unusual increases in their capital budget, they are allowed to make an application for incremental capital funding, called ICM. This has not been used heavily, but when it has its availability has sometimes been contested, by SEC and others.

The Energy Board has now launched a policy consultation to assess whether adjustments to the ICM rules are appropriate. SEC is an active participant.

Intervenor Review. The Energy Board has reported to the (new) Minister of Energy and Electrification on the intervenor system, with proposals for how it might be improved. That report has not been made public, but we know that a report from an independent consultant to the regulator in July concluded that the Ontario intervenor system is effective in keeping rates down. However, this remains an area to watch. Policy changes such as these often contain risk.

Jay Shepherd
Mark Rubenstein
Jane Scott
On behalf of SEC

Questions? Contact Brian McKay (sec@oesc-cseo.org) or Mark Rubenstein (mark@shepherdrubenstein.com)

The SEC is registered as the official intervenor at the Ontario Energy Board on behalf of all 72 District School Boards in Ontario. The intervention role aims to protect the financial interests of school boards when natural gas and electricity utilities apply for increases in distribution rates for their energy sources.

The SEC is represented by Jay Shepherd, SEC Legal Counsel, who consults regularly with the OESC Executive Director.

Ted Doherty
Executive Director
Email solutions@oesc-cseo.org