

# SCHOOL ENERGY COALITION (“SEC”)

## SUMMARY STATUS REPORT

February 24, 2006

The first half of 2006 is very busy in energy regulation. The School Energy Coalition is currently participating in hearings on 2006 electricity distribution rates for several utilities and on gas distribution rates for Union (2007), and is involved in several other processes.

### ONGOING MATTERS – NATURAL GAS

**Union 2007 Rates.** Union Gas has, in December and January, filed its 2007 rate application, seeking an overall increase in their revenue requirement of about \$104 million. Schools would see an increase of about 10% in the distribution portion of their bills, or about \$2 million per year. The application also proposes to delay a redesign of the rates applicable to schools, ordered by the Energy Board in 2004, until January 1, 2008. The current regulatory schedule has a hearing in May or June and a decision in the early fall, with new rates effective January 1, 2007. It is expected that this rate decision will form the basis of Union’s rates until 2010 or 2012 through an automatic adjustment mechanism.

**Enbridge 2006 Rates:** The final decision on Enbridge’s application for 2006 rates was released last week. The Energy Board, agreeing with School Energy Coalition and other ratepayer groups on many key issues, was highly critical of some aspects of the utility’s application. In the result, the original \$1.8 million increase for schools has been reduced to about \$500,000 (around 3% on average), **a saving of about \$1,300,000 for schools in 2006.** Because the increase was small, the OEB agreed to allow a retroactive charge for the first three months of the year, which should average about \$60 per school on the April bill.

As earlier reported, an interim decision was released on December 22, 2005 related to the conservation issues in the case. Enbridge had sought changes that would have resulted in multi-million increases in incentive payments to the parent company. Overall, the decision generally agreed with most of our submissions, and strongly protects the interests of schools and other ratepayers.

**Enbridge 2007 Rates.** With the delay in the 2006 decision, the new date for filing for 2007 rates is now expected to be April or May. Because that raises the risk of further retroactivity, SEC has formally asked the Board to limit retroactivity by accelerating the process. As with Union, the 2007 Enbridge case is expected to form the basis for rates until 2010 or 2012.

**Natural Gas Electricity Interface Review.** The high costs associated with natural gas electricity generation could become a burden on schools, depending on how those costs are calculated and allocated to ratepayers. The Energy Board has announced a hearing process, starting in March or April, to consider those issues. SEC is working with other ratepayer groups to participate efficiently but effectively.

**Natural Gas Conservation.** In 2006 gas distribution rates will include more than \$35 million for conservation programs, a \$1 million annual bill for schools. While schools participate actively in these programs, and so benefit much more than the annual cost they pay in rates, proposed changes to the rules by the two gas utilities could dramatically increase the cost, and/or reduce the benefit schools currently receive. The Energy Board has announced a generic hearing this spring and summer to deal with the structure and economics of natural gas conservation programs. SEC expects to be actively involved.

### ONGOING MATTERS - ELECTRICITY

**Hydro One 2006 Distribution Rates.** Hydro One has applied for new distribution rates effective May 1, 2006, including an 18% increase (about \$3 million for the 1100 schools affected). Hydro One already has the highest delivery rates for schools of all Ontario distribution companies. The oral hearing was completed in January, with argument in February, and a decision expected by the end of March. SEC focused its intervention on seeking a long term plan that will provide for reductions to Hydro One’s high rates over time.

**Hydro One 2006-7 Transmission Rates.** Hydro One was required by the Ontario Energy Board to file an “involuntary” application for transmission rate adjustments. In a decision released this week, the Energy Board determined that, since the application cannot be heard until the fall, the utility will be required to set aside 50% of its 2006 transmission earnings in excess of 9.88% for return to ratepayers. SEC and others are concerned, however, that for the first time the Energy Board has based this calculation on financial statements rather than regulatory earnings, which are typically much lower. We expect that intervenors will meet next week to decide whether further action, such as an appeal, is required.

**Toronto Hydro 2006.** Toronto Hydro’s 2006 rate application, filed last fall, provided very little information on their plans and their costs. While they sought a rate decrease that, for schools, would be about 5%, SEC and others have shown, during the oral hearing, that their rates are already well above what they really need, and a much larger reduction may be appropriate.

SEC also led the evidence of a senior business official from TDSB, showing that Toronto rates are well above those of Ottawa, Hamilton or London for comparable distribution service. While Toronto Hydro tried to attack the credibility of TDSB, in the end it appeared that the evidence was effective.

A decision is expected in late March.

**Hydro Ottawa 2006.** In December SEC was lead negotiator in settlement that would have limited the large rate increase proposed by Hydro Ottawa. Ottawa was one of the lower cost utilities in the province, but the increase of 30% was still somewhat high. The settlement, however, was rejected by the Energy Board, which wanted to re-insert additional spending into the budget, restoring some of the increase. SEC and others resisted this, and as a result the Board has now approved a revised settlement with the same net impact as the first. One issue remains to be decided, probably in March. Ottawa schools will still have a substantial increase, but **will save between \$50,000 and \$85,000 in 2006 as a result of the SEC participation.**

**Enwin Powerlines 2006 Rates.** The Windsor utility proposed a rate increase for 2006 of about 24%, maintaining their position as an average cost utility. In a settlement negotiation in January, the utility agreed to reduce that to 22%. Then, SEC reviewed the tax model for the utility, finding an unusual allocation that Enwin

ultimately agreed to reverse. As a result, the rate increase has been reduced to 19%. **The impact on Windsor schools is a \$25,000 saving for 2006.** In addition, Enwin like many utilities is implementing the revised allocation of regulatory assets, ordered as a result of SEC’s efforts in 2004 and 2005. **This will reduce rates for Windsor boards by another \$110,000 in 2006,** leaving a net decrease of about 1% from 2005 bills.

**2006 Electricity Distribution Rates.** A total of more than eighty 2006 rate applications were filed by electricity distribution companies. Aside from Hydro One, Toronto, Ottawa and Enwin, SEC has prioritized the applications and focused on those with high rates relative to other utilities, and high increases for 2006. Most of these proceedings are now complete, with decisions on individual applications expected in March. While each application often means only a few thousand dollars a year for the local schools, overall the increases sought by all utilities average more than 15% for 2500 schools affected, a \$3.5 million increase.

**Electricity Conservation.** Generic issues relating to energy conservation programs by electric utilities were considered in a proceeding in December. A decision is expected in March. Meanwhile, schools should remember that local utilities have sizeable conservation budgets, and continue to be good sources of funding for the energy conservation programs of school boards.

**Electricity Cost Allocation.** Ontario electricity distribution rates continue to use cost allocation and rate structures from the early 90s or before, so are badly out of date. The process of revising those structures, which could have significant impact on schools, is continuing through most of 2006. Darryl Seal for SEC is a key player in that process.

## **OTHER MATTERS**

New lawyer John De Vellis joined the SEC team at the end of January. His first major assignment will be as lead on the 2007 Union Gas rates case.

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