

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

August 28, 2006

The School Energy Coalition is currently participating in hearings on 2007 gas distribution rates for Enbridge and on regulation of gas storage, and is involved in several other regulatory processes.

ONGOING MATTERS – NATURAL GAS

Enbridge 2007 Rates. Enbridge originally planned to file their 2007 rate case in May, but the extent of the additional work it had to do, coupled with their intensive involvement in other processes, caused them to delay that filing until August 25th. The application, to no-one’s surprise, seeks a rate increase of about 17%, a total of about \$3.5 million per year for schools in the Enbridge franchise area (more than \$1000 per school). As this is the base year for a formula rate-setting period that will last until 2010 or 2012, the effect is that \$14 to \$21 million is at issue for schools in this proceeding. The application includes increased shareholder return, changes in weather forecasting, and large increases in capital and operating costs. SEC will work with other ratepayer groups to resist this rate increase.

The late filing creates a risk of retroactivity in rates. We have communicated with the Board and with Enbridge the continued strong opposition of schools to retroactive rates, and we plan to make it a central part of our intervention from the outset.

To prevent a repeat of their adverse 2006 Board decision, Enbridge has established stakeholder consultations on several contentious issues. SEC counsel Jay Shepherd has been asked by the stakeholders to be one of the representatives of the ratepayers in these activities. This has allowed us to have access to significantly greater information than is normally available during hearings, and has also solidified our position with Enbridge as a customer group willing to work with them co-operatively.

Natural Gas Electricity Interface Review. This proceeding, established to deal with issues relating to the expected increase in gas-fired electricity

generation, has settled many of the electricity related issues in non-controversial ways. However, buried within the process is a proposal by the two gas utilities to remove billions of dollars of natural gas storage facilities from regulation, increasing rates by as much as \$100 million. The potential impact on schools across the province is around \$3 million. SEC lawyer John De Vellis, who has a background in economics, has participated fully in this highly technical hearing involving issues of competitive markets and the impact of market pricing of regulated services. Final arguments are taking place in late August and early September, and a decision is expected by the end of November.

Natural Gas Conservation. Schools, because of their unique characteristics, participate with disproportionate frequency in natural gas conservation programs. The Ontario Energy Board regularly hears debates about the rules for annual spending by the utilities of more than \$35 million a year on conservation, and established this proceeding to set a common set of rules for both utilities for the next three years. SEC participated actively, and in particular SEC counsel Jay Shepherd was a lead negotiator for the ratepayer groups in the successful settlement of many of the financial issues. The environmental groups sought to increase the spending by several times, with a potential short term rate impact on schools of hundreds of thousands of dollars per year, while some ratepayer groups sought cutbacks which would have reduced the funds available to schools for innovative conservation activities. SEC promoted aggressive conservation programs, but within reasonable budget limits.

The OEB’s decision, released August 25th, approves the financial package negotiated by SEC and others. It also accepts SEC’s position that emission credits, if turned into cash by the utilities, have to be accounted for to ratepayers. Overall, the OEB approved a three-year plan that will reduce regulatory activity, but give the utilities sufficient funds to continue strong conservation activities. School boards should actively

seek out their local gas utility to participate financially in their energy conservation initiatives.

ONGOING MATTERS - ELECTRICITY

Electricity Rates 2007 and Beyond. The Ontario Energy Board has established a multi-part process for setting the distribution rates for electricity for the period 2007 through 2010, with the potential that the methodology selected will continue beyond that period. Rather than continue with annual applications by each of almost 90 distributors, the OEB plans to bring only a third of them in for rate reviews each year, while allowing the others a formula adjustment in the years they are not fully reviewed. In the process they plan to restructure the rate-setting process to reduce ratepayer involvement.

The proposed methodology has two major aspects:

- First, re-evaluation of the rate of return for distributors, who are in almost every case government-owned. SEC has been actively involved in that part of the proceeding, and will participate fully in a September hearing on these issues. About \$40 million a year of the electricity bill of school boards represents payments for the distributors' cost of capital, so changes to the formula can have a significant impact.
- Second, the formula proposed for inflation adjustments without a hearing. While much of this is non-controversial, SEC continues to take a leadership role in asking why higher-priced distributors are not being required to reduce their prices relative to their peers. The adjustment formula is a convenient place to do that, and some other stakeholders are now supporting this position.

Hydro One 2006-7 Transmission Rates. Hydro One's transmission business has been essentially unregulated for many years, and has earned more than a normal regulated rate of return. The OEB has required them to file an application for regulated rates commencing in 2007. To that end, over the spring and summer Hydro One has engaged stakeholders in a series of consultations to which SEC has been a party. Hydro One's formal application will be filed with the OEB in September, and it is expected that, to the surprise of many, they will seek rate increases rather than decreases, despite their high rates of return. From the

information we have available today, it appears that the potential impact on the electricity bills of schools will be \$1 million or more per year. SEC will participate actively in this proceeding, which is expected to cover the period from 2007 to at least 2009.

Orillia Power. Local distributor Orillia Power is seeking an exemption from the OEB's Affiliate Relationships Code, and other standard rules. While the impact within Orillia is relatively small, the principle if applied to other distributors could generate substantial rate increases across the province, so SEC is participating to ensure that any exceptions granted are solely because of the unique circumstances of Orillia.

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 has continued through most of 2006. A draft cost allocation model was tabled by the OEB in July, and will be used by distributors for the first time in the fall of 2006 and spring of 2007. SEC continues to monitor this process closely.

OTHER MATTERS

Following an Expressions of Interest process, the Technical Advisory Committee of SEC unanimously recommended the re-appointment of the firm of Shibley Righton and Jay Shepherd to provide intervention services for up to 5 years. This recommendation was approved unanimously by the OESC Board of Directors in June, 2006, to take effect September 1, 2006. We are delighted to continue to work with Jay and Shibley Righton in this important work.

SEC remains in the market for both a principal regulatory consultant to replace Darryl Seal, and a conservation specialist to work with school boards. A number of excellent candidates were identified in May and June, but although two actually agreed to join us, in the end extraneous factors got in the way. SEC will advertise for these positions again in September.

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