

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

October 19, 2009

So far this year SEC has been able to report savings of about \$6.7 million for schools. During the slow summer months, not much has happened, but there have still been a few wins, including Canadian Niagara Power and other smaller distributors. The incremental dollars saved have not been large.

In the fall and winter, the focus will shift to the 2010 electricity and gas applications, including major rate increases for Enbridge, Hydro One, Toronto, Veridian, and more than a dozen others.

In addition, the first of the Green Energy Act spending plans will be considered by the Energy Board, as well as the general rules for connecting renewable energy generators.

ONGOING MATTERS – NATURAL GAS

Union 2010 Rates. Union Gas has applied for their 2010 rates under their formula-based structure, introduced in 2008. The increase is, as expected, less than inflation, and SEC is simply keeping an eye on the proceeding, which should be straightforward.

Enbridge 2010 Rates. Enbridge Gas Distribution has also applied for their 2010 rates under their formula, but have proposed a number of “adjustments” that would make their increase about 5%, as opposed to the 1-2% that is expected. SEC has intervened to review the appropriateness of these adjustments.

Enbridge CIS. SEC participated in a collaborative review of the new Enbridge customer billing system, which went live with a fairly smooth transition in September. Enbridge credits the experimental process in part with ensuring that this large project came in on budget and (almost) on time. It is their most successful IT project in the company’s history.

ONGOING MATTERS - ELECTRICITY

Hydro One 2010 Distribution Rates. Hydro One has sought another double digit rate increase for their distribution customers, including more than a thousand schools. The process is well underway, with a hearing expected in December or January.

In the last Hydro One rate case, SEC focused on opposing their harmonization plan. The best we were able to achieve was an order that the utility carry out a proper cost allocation study. Now, Hydro One has

refused to comply with that order, saying it is too complicated. SEC has retained well-known rate specialists E3 Consulting from San Francisco to provide an analysis of how urban costs can be distinguished from rural costs in a rigorous way.

Canadian Niagara Power 2009-12 Rates. CNP operates three regulated franchise areas, in Gananoque, Fort Erie, and Port Colborne. SEC participated in the normal way in the Gananoque and Fort Erie components of this proceeding, and there were small reductions in rates as a result.

On the Port Colborne component, CNP had entered into an unusual lease as an alternative to buying the utility in 2004. The result of the structure was an artificial increase in rates of about 8%. CNP opposed a review of the lease, and initially won that point. SEC appealed, won the appeal, and then prevailed at the hearing on the merits of the issue. While the resulting 8% reduction in rates **probably means no more than \$40,000 direct impact for the affected school boards**, the structure, which was being eyed by larger utilities, has been rejected. The potential cost in future transactions could have been millions of dollars, but that has been avoided.

Other Electricity Distributors 2009 Rates. In addition to the items previously reported, SEC has participated in 2009 rate applications for several other electricity distributors, such as London, Niagara on the Lake, etc. In general, the Energy Board has given the utilities what they asked for, so **total savings for schools from these participations appear to be only about**

\$125,000 over the next four years.

Toronto Hydro 2010 Rates and other applications.

Toronto Hydro is now seeking another large rate increase, this time for 2010. In addition, they have sought a further \$14 million from ratepayers for their 2009 “contact voltage emergency” (the electrocuted dogs problem). SEC is actively involved in all Toronto proceedings. The contact voltage hearing was in October, and a decision is expected in November. The rate case is scheduled to be heard in January, with a decision likely in March.

Other Electricity Distributors 2010 Rates. About twenty electricity distributors are applying for full cost of service rate reviews this year, including substantial ones such as Toronto, Veridian, Kitchener, and others. SEC is participating in the larger ones, and is working with other ratepayer groups to divide up the smaller ones.

Renewable Energy Initiatives. Schools are likely to be active participants in the new MicroFIT and FIT programs for renewable energy generation. The Energy Board has carried out several consultations over the summer to consider how those projects will interact with the regulated utilities. SEC has been active in those proceedings.

Deferred Taxes. The large amounts of money accumulated in special tax accounts by distributors remain the subject of an ongoing proceeding, in which SEC has taken the lead for all ratepayer groups. At our suggestion, an informal meeting of all parties was held during the summer, which cleared up a lot of misunderstandings. The next step will likely be legal arguments, then a hearing in the spring. At issue for schools is at least \$2 million, perhaps much more.

Green Energy Act. The first of the spending plans under the Green Energy Act has been filed with the Energy Board by Hydro One Distribution, proposing spending of over \$1.9 billion in 2010–2014 under the green energy rubric. As with other green energy plans, the SEC position will be twofold: a) keep the overall costs within reason, and b) ensure that the resulting system configuration can accept maximum renewable energy contributions from schools.

ONGOING MATTERS - OTHER

International Financial Reporting Standards. The accounting standards for utilities will change in 2011, and significant “cost” increases are possible. As a direct result of urging from SEC, the Energy Board initiated a thorough consultation, and in July released a report on their approach to the new rules. While they did not accept all of our positions, the basic rule we have proposed – that accounting rules will not be allowed to drive rate increases without a regulatory review – has been adopted. They have also accepted our position that full disclosure of the impact of all accounting changes is a mandatory part of the regulatory process in this transition period.

Regulatory Reporting Rules. SEC has taken the lead for several years in trying to get the periodic reporting by utilities to be more transparent, and to have more of it publicly available. Recently, at our request parties were provided with a spreadsheet of several years of financial information filed by utilities. In September the Energy Board initiated a consultation to expand further the public reporting of utility information. SEC will continue to be involved.

Cost of Capital. Periodically the utilities seek to have the Energy Board increase their allowable profit levels (called the return on equity), normally set using a formula. This year the utilities argued that the meltdown of the financial markets meant the formula is no longer valid. SEC has been very active in ensuring that this process is thorough and practical. Several public conferences were held, with increasing evidence that the formula is working just fine. Final submissions are due next week, and a decision is expected in November. At issue for schools is more than \$20 million of annual bills based on this formula.

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