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

School Energy Coalition ("SEC")

Summary Status Report
September 30, 2017

Savings for Ontario School Boards

The Hydro One Transmission decision finally materialized, and it was worth the wait. The Energy Board cut the amounts recoverable from customers by about $900 million, some now and some in the longer term. For schools that is more than $15 million. In addition, the Energy Board backed off planned changes to our rate structures, saving schools at least another $5 million over time.

*Add in some smaller items, and Q3 savings are about **$20.4 million.***

Q4 is expected to include the decision in Canada's biggest ever rate case, OPG. The focus of the customer groups, though, will be on Hydro One Distribution, Alectra, and the Enbridge/Union merger. And, on preserving the ability of SEC and others to participate, a right that is once more under attack.

ONGOING MATTERS - ELECTRICITY

Hydro One Transmission 2017-2018 Rates. The first Energy Board rate decision for the newly privatized Hydro One was delayed for unknown reasons, but finally was released at the end of September. The immediate result is that our rates in 2017 and 2018 will be lower. The $3 million requested increase for schools will be reduced by $1.8 million. SEC, led by Mark Rubenstein, argued successfully for reductions to capital spending, and to Hydro One's very high compensation levels.

The bigger long term saving comes from the debate over a complex tax issue arising out of the IPO. As proposed by Hydro One, it would have generated higher rates for more than twenty years. Everyone expected it would be approved. It was a done deal.

In a lengthy and difficult analysis, the Energy Board instead adopted a proposal by SEC counsel Jay Shepherd (a former tax lawyer) that will result in $822 million lower rates for all Hydro One transmission and distribution customers over the long term. For schools, that is a saving of $13.5 million, for a **total long term saving in this case of $15.3 million**.

Hydro One Distribution 2018-2022 Rates. Hydro One Distribution serves about 1100 schools. They already have the highest distribution rates of any distributor, but propose to increase the rates for schools by 3.4% per year for the next five years, with higher increases in the early years. The cumulative increase is $11 million, more than $10,000 per school. Not good. SEC will be pushing back, as we have in the past.

Worse still is the impact on the 50 schools in three areas acquired recently by Hydro One – Norfolk, Haldimand and Woodstock. Those schools have no increases for the first 3 years, and then $300,000 over the last 2 years, about $6,000 per school. Then they jump up another 8-10% per year over the next 5 years. SEC fought these acquisitions, arguing that these increases were inevitable. We lost, but got promises that the Energy Board would protect the customers. Now we will be asking them to keep those promises.

The hearing was expected to be early in 2018, with a decision late spring. There have been delays, with the result that now the hearing will likely be in the spring, with a decision not until at least summertime.

OPG 2017-2021 Rates. We continue to await the decision in this case, now expected in December. The case had many complicated issues (previously reported in detail), and major dollar implications – for schools, $77 million over the next five years, and $340 million over the next ten years. It also involved difficult challenges relating to rate smoothing.

Even if SEC has substantial success in this proceeding, OPG rates will increase significantly. Nuclear power has been heavily subsidized since the 1999 Ontario Hydro restructuring. New and substantial spending on nuclear will not be subsidized, so over time the customers will be paying the true cost.

After a decision in December, it is unlikely that new rates will be implemented immediately. The rate smoothing proposal may take some time to work out the details, and there could well be appeals.

Commercial/Industrial Rate Design. Although schools are neither commercial nor industrial, we come within that category. For the last three years the Energy Board, at the behest of the electricity distributors, has been looking for ways to shore up the revenues of those distributors in the face of customers who want to generate their own electricity.

The primary proposal, already implemented for residential customers, was to move from rates based on usage to a monthly fixed charge for all customers in each rate class. For schools, the impact of this was expected to be an increase of a million dollars a year or more. SEC has been fighting that in round after round of debates since the initial proposal. The Energy Board has now accepted our position that fixed charges for the larger general service customers, like schools, will not produce a fair result. The savings for schools will, over time, be **at least $5 million**.

All is not happy, though. The alternative being put forward by the Energy Board's staff would render new rooftop solar installations at schools (or Loblaws, or Home Depot) uneconomic. It would also penalize the cogeneration systems of the hospitals and universities (and others), which help the province to reduce peak electricity requirements.

SEC is working with the Energy Board to try to fix those proposals so that these consequences – which are unintended - can be avoided.

Other Cases. Settlements and decisions for a couple of smaller utilities, including Thunder Bay Hydro, have resulted in savings for the affected schools of about **$100,000**. There are several smaller applications still on the go, but no imminent decisions.

ONGOING MATTERS – NATURAL GAS

Enbridge/Union Merger. Enbridge acquired the parent company of Union Gas at the beginning of the year, but immediately announced that the two companies would operate independently. Each was expected to file a five year (2019-2023) rate application in November 2017, with requests for considerable increases. SEC has been vocal behind the scenes in opposing this construct, which assumes there are no efficiencies from the merger.

Enbridge has now advised industry insiders that they have changed their strategy. They will apply for approval of their merger in October, and seek a ten year rate plan for the combined entity that allows the shareholder to keep all of the benefits of the merger.

SEC will be seeking an equitable sharing of those benefits between the shareholder and the customers.

OTHER MATTERS

Business Expansion. Enbridge has filed for 2018 rates, seeking to expand its regulated business into non-monopoly areas under the guise of cap and trade. They will seek the protection of regulated rates (no downside risk), while competing with private companies offering the same products and services. Alectra says that it expects to do the same in its next rate application.

SEC will be allying with other customer groups that oppose expansion of regulatory protection in an anti-competitive manner, since in the longer term it has been shown to harm the customers.

<u>Attack on Customer Representation.</u> The utilities have been asking the Energy Board for years to limit the ability of customer reps to intervene in their rate applications. Utilities feel they would face a less rigorous review if they could just get rid of SEC (and their ilk). The Energy Board has floated proposals to do that, but none of them have been viable.

At the end of September, the Energy Board announced to the utilities that it would engage in a new initiative called Proportionate Regulation, which limits the involvement of customer representatives in many rate proceedings in which we are currently the primary parties. A pilot is proposed for the current year, but the pilot will not even be finished before the planned full implementation in August 2018.

SEC is actively monitoring this threat to participation by schools, and will respond to the challenge.

Jay Shepherd
Mark Rubenstein
Counsel for SEC

Questions? Contact Wayne McNally (wmcnally@opsba.org) or Jay Shepherd jay@shepherdrubenstein.com

In conclusion,

OESC is represented by Jay Shepherd who consults regularly with myself and Wayne McNally, who is an advisor to the OESC Board of Directors. It is critical to note that the work of the School Energy Coalition, per OESC, is a respected intervenor at the Ontario Energy Board.

Our work has allowed every school district in the Province of Ontario to avoid significant energy costs. This reality assists with the bottom line to your budget.

Ted Doherty
Executive Director
416-340-2540 (Toronto Office); 519-955-2261 (Mobile)
or Email tdoherty@oesc-cseo.org