

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

March 31, 2014

The first quarter of 2014 has been very busy, but few proceedings have reached a conclusion. As a result, savings achieved for the quarter are less than \$800,000.

The focus continues to be on a) the Enbridge 5 year rate plan, where SEC has proposed reductions in rates for schools of \$25 million over five years, b) Ontario Power Generation’s proposal to increase rates 28.6% over two years, and c) Hydro One’s proposal to increase rates for schools by more than 75% over five years.

ONGOING MATTERS – NATURAL GAS

Enbridge Rate Formula 2014-2018. Unlike Union Gas, Enbridge has sought five years of rates based on a forecast of specific cost increases. For schools, the impact could be an increase of \$17 million.

The oral hearing is now complete, and SEC has filed its final submissions, proposing rate reductions (as opposed to increases) of more than 15% over the next five years. Relative to the increases proposed by Enbridge, this has the potential to save schools more than \$25 million. A decision is still expected in June.

Enbridge and Union GTA Capital Projects. The two gas utilities proposed capital spending of more than \$1 billion to reinforce their high pressure systems in the GTA. While the projects appeared from the outset to be necessary, the structure of the projects, including the risks the utilities wanted the ratepayers to bear, were questionable.

SEC supported the projects throughout, but sought ratepayer protections as conditions of approval. In the decision, the Energy Board has largely agreed. As a result, things like the costs of delays in some parts of the projects will be at the utilities’ risk, rather than the ratepayers. This is already starting to pay off, as backlogs at the National (not Ontario) Energy Board will mean the feared delays will almost certainly materialize.

Conservation Spending and Bonuses. The two large gas utilities have budgets – from ratepayer funds – totaling more than \$60 million per year to promote

conservation programs. Further, they are eligible for bonuses and other compensation of more than \$20 million per year if their conservation programs are successful. Success is measured by complicated formulae based on assumptions of future efficiencies, compared to what would have actually taken place. The process has always been fraught with uncertainty.

SEC has been active for some years in the audit of the utility compensation claims, and recently has become concerned that the largest class of claims (>80% of the total) may have some embedded flaws. In a recent Union Gas case, SEC challenged the result.

In a decision that surprised many, the Energy Board agreed, and cut back the utility incentive by a substantial amount. Although the impact on schools is small, the identification of a big hole in the numbers will likely have long term ramifications.

SEC has already proposed the same analysis in challenging the latest Enbridge compensation claim. A decision on that one is expected in May. Further, the Energy Board has established a working group to look at new rules for gas conservation starting in 2015. SEC is one of three ratepayer groups represented in that process, and will raise these issues there as well.

Kitchener Gas Utility. Kitchener is one of only two Ontario gas distributors that does not have its rates regulated by the Energy Board. SEC has been monitoring its rates, and as a result of recent increases has initiated discussions with the utility to determine the reasons for the increases.

ONGOING MATTERS - ELECTRICITY

Hydro One 2015-2019 Distribution Rates. Hydro One, which serves more than 1100 schools, filed in December for rates for 2015-2019. Now they have provided the second part of their evidence, describing the details of their rate changes.

Through adjustments to its mix of rates (between residential and commercial customers), and through substantial cost increases, Hydro One is proposing to increase the rates for schools by 70-80% over five years. For the average school in the Hydro One areas, that means a total increase of about \$9,000 per year by the end of that period.

SEC's active participation will include focus on the low efficiency levels at Hydro One (73% above the Energy Board's benchmark levels, the worst performance in the sector). However, because of the rate shift between commercial and residential customers, SEC will also be looking more closely at how cost responsibility is being allocated.

Toronto Hydro 2015-2019 Rates. Toronto Hydro is continuing to advise all stakeholders that they plan to seek five years of substantial rate increases in an application to be filed in the summer. The structure and size of their application is likely to be influenced by the decision of the Energy Board in the five-year Enbridge case, in which many of the same issues arise.

Other 2014+ Distribution Rates. Most of the applications for 2014 rates for electricity distributors have now been resolved, generally through negotiated settlements. Only three remain, and only one is expected to require a full hearing. Savings achieved for the affected schools total about **\$500,000**.

Rate Restructuring. The Energy Board has circulated a proposal to change how distribution rates are structured, so that they will be less influenced by volume/demand. This follows from consultations with stakeholders, including SEC, over the last three years.

Any change in structure will have substantial winners and losers, so SEC has advised its intention to be an active participant in this debate. In past discussions on this issue, SEC has been able to identify that schools are among the customer groups most likely to have negative impacts from such a change.

Ontario Power Generation. Ontario Power Generation's application for a 28.6% rate increase over 2014 and 2015 is continuing, with the first direct questioning of OPG witnesses next week. The remaining schedule has now been established, with the full oral hearing in June, and the decision from the Energy Board expected early in September.

Schools stand to be on the hook for an increased electricity bill of almost \$16 million per year, for each of the next two years or more, if the application is approved as filed.

Hydro One Takeover of Norfolk Power. Hydro One serves about 25% of the distribution customers in Ontario, and has in the past been an active acquiror of other distributors (more than 80 to date). In each case, the ratepayers of the acquired distributor have eventually had very large rate increases, in some cases more than 500%.

Now Hydro One has started to make offers for more distributors, with estimates of their current activity being as many as forty more companies. The first of this new wave to come to the Energy Board for approval is the takeover of Norfolk Power, just west of Hamilton. SEC has estimated that, if the transaction is approved, rates for schools in that community will increase by up to 300% over the next six years. Notwithstanding these negative impacts, many believe that the transaction will be approved.

SEC has now filed final argument vigorously opposing the transaction. A decision is expected in June.

Transactional Review. In part as a result of this case, and the Hydro One/Horizon dispute last fall (previously reported), the Energy Board is reviewing its policies on transactional approvals. SEC will be active in that review.

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