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School Energy Coalition ("SEC")
Summary Status Report
September 30, 2022

Savings for Ontario School Boards

*As expected, the problems of inflation and volatile capital markets have started to affect utility rate applications. In the Hydro One case, for example, last minute adjustments totalling more than $600 million made that even more challenging than previously. Despite that, a settlement was reached that, along with other smaller cases, will result in **savings for schools of more than $12.1 million.***

We now expect Q4 (and beyond) to be dominated by the five-year Enbridge rate case, and the debate over how to protect customers from the financial risks of reducing fossil fuel use. In addition, inflation and higher interest rates may result in a rush of new utility rate applications.

ONGOING MATTERS – NATURAL GAS

Enbridge 2024-2028 Rates. After the acquisition and merger of Enbridge Gas Distribution and Union Gas in 2017, gas distribution rates will finally be reviewed by the Energy Board in 2023 to cover the five years 2024-2028. Rates and utility spending have not had a full review since 2013 for Enbridge and 2012 for Union.

SEC now has preliminary information on this application, of which part will be filed on October 31st, and the remainder on November 30th. There are three main areas that will be contentious.

First, Enbridge is once more proposing to ramp up spending, and to make accounting changes, resulting in an initial increase in their recoverable costs of more than 4%, and annual increases after that well above inflation. This is on top of recent increases in the cost of the gas commodity.

Second, Enbridge will be proposing to harmonize and redesign its rates across its various rate zones, resulting in significant additional increases for general service customers, including potentially schools. The proposal is to implement this in 2025.

Third, and by far the most important, Enbridge is as expected proposing a response to the "energy transition", the move away from fossil fuels, which they call the "safe bet" strategy. "Safe bet" appears to be a euphemism for maximizing the continued use of natural gas, and shifting all risks to the ratepayers.

Thus, the Enbridge strategy includes a proposal to increase their profit margin to reflect their increased risk, and continued spending in the $1.5 to $2.0 billion range annually on new pipelines and other capital, despite the risk that those costs will be stranded.

SEC plans to be a key participant in this process, which is likely to last until the end of 2023.

Enbridge Conservation. A decision on the five-year Enbridge gas conservation plan was expected in Q3, but has been delayed by a new Enbridge filing, which describes the confidential terms of a deal they are striking with the federal government on residential conservation programs for both gas and electricity. SEC is on record as opposing any deal that makes the gas utility the gatekeeper for electricity conservation funding.

A decision is now expected imminently.

In a parallel development, Enbridge continues to fight an independent report showing that a longstanding Enbridge modelling tool has been dramatically overestimating conservation results for a decade or more. SEC counsel Jay Shepherd, a long-time member of the committee that supervised that study, is resisting Enbridge attempts to water down the expert's findings.

ONGOING MATTERS - ELECTRICITY

Hydro One 2023-27 Rates. Led by SEC counsel Mark Rubenstein, the fifteen intervenor organizations in the Hydro One rate case have been able to reach a settlement with Hydro One on all issues in both distribution and transmission rates. While the settlement conference concluded in late August, it took until October before the settlement was finalized and filed with the Energy Board.

The Hydro One 2023-2027 application covers transmission rates for all schools in the province (about 10% of a typical bill), and distribution rates for about 1500 schools (25-35% of a typical bill). After proposing substantial spending increases in the initial application, Hydro One then refiled in March for higher increases to reflect inflationary impacts on their costs. The impact on schools was expected to be a minimum of $20 million over the five-year period, Further, more than $600 million of the rate increases were proposed to be deferred (with interest) until 2028, and then caught up, meaning an overhanging liability for schools of about $12 million.

After a lengthy and difficult negotiation in August all parties agreed to a settlement that will cut the increases substantially, and get rid of the deferred liability.

Schools served by Hydro One on the distribution side are expected to **save about $5.8 million over five years**. Schools throughout the province will see **transmission rate savings of $6.2 million**. Final rates are still subject to formulaic adjustments in November to reflect capital market and interest rate changes, but those adjustments will not affect the delta between what was proposed (or would have occurred regardless) and what was settled.

Alectra 2023 Rates. This utility's scaled back request for increased capital funding is in the final stages, with arguments of SEC and others filed in September. However, the Energy Board continues to have questions, and a decision has been delayed until Q4.

Other Distributors' Rate Applications. A settlement was achieved in Milton Hydro's 2023 application, resulting in **savings for schools of about $110,000** over the next five years. SEC counsel Jay Shepherd was lead negotiator on behalf of customer groups. Applications by Kingston Hydro and EPCOR (Collingwood) are in process, with the latter delayed because of technical issues on the side of the utility. An application has recently been received from PUC Distribution (Sault Ste. Marie), and another is expected imminently from Bluewater Power (Sarnia). All are for five years of rates.

OTHER MATTERS

Framework for Energy Innovation. In the follow up to this report on transition in the energy sector, in which SEC played such an active role, utilities are starting to look at how to transform their systems to accommodate a market that will have new technologies and participants. Elexicon Energy, one of the larger distributors, has already filed an application to build a new system in north Whitby that would make increased use of innovative approaches. The issue of the costs and risks of that proposal is now being considered by the Energy Board.

Status of Intervenors. The Energy Board has completed a review of how intervenors participate in applications, and are funded for that participation. The review generally concluded that Ontario has an excellent intervenor system relative to other jurisdictions, and set out a roadmap for consideration of improvements to be designed and implemented over the next couple of years. While the improvements are not expected to limit the ability of SEC to participate, we will remain vigilant to ensure that we can continue to do so in a robust way to protect the interests of schools.

New Team Member. Jane Scott, recently retired as Manager of Major Applications at the Energy Board, has agreed to assist SEC on key applications going forward. She has already taken charge of three of the upcoming cases. Jane, an electrical engineer with an MBA and an LLM in Energy Infrastructure, has spent more than thirty years on the front lines of energy regulation.

Jay Shepherd
Mark Rubenstein
On behalf of SEC

Questions? Contact Brian McKay (sec@oesc-cseo.org) or Mark Rubenstein (mark@shepherdrubenstein.com) or Jay Shepherd (jay@shepherdrubenstein.com).

The SEC is registered as the official intervenor at the Ontario Energy Board on behalf of all 72 District School Boards in Ontario. The intervention role aims to protect the financial interests of school boards when natural gas and electricity utilities apply for increases in distribution rates for their energy sources.

The SEC is represented by Jay Shepherd, SEC Legal Counsel, who consults regularly with the OESC Executive Director.

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