

SCHOOL ENERGY COALITION

SUMMARY STATUS REPORT

June 22, 2004

The School Energy Coalition is currently involved in the Enbridge 2005 Rates case, the interim rate increase request by the electric distribution companies (called the Regulatory Assets proceeding) and in several other processes.

MAJOR ONGOING MATTERS – NATURAL GAS

Union 2004 (and Beyond) Rates Case: In the spring of last year Union Gas filed for a 16.8% rate increase for the year starting January 1, 2004, implying a total dollar increase for schools in the Union Gas area of about \$3 million. OPSBA's goals in this process were a) resist this substantial increase; and b) review the design of rates applicable to school boards.

The decision of the Board, released in March, denied Union almost all of their increase, leaving less than 2% increase overall. However, the rate order in late April disclosed a cost allocation shift, with the result that most general service ratepayers had a rate increase of around 4%. Schools in the northern area of the Union franchise will have about a 3.5% increase. However, the first step in rate redesign in the southern area of the franchise (home to most of the schools) will result in the average school having neither increase or decrease. Most schools appear to be within 0.8% of the 2003 rates. Union has also been ordered to do a full review of the rate applied to most schools, rate M2, and file that review in its next rate case. It is expected that review will show that a further reduction for schools will be necessary.

Union objected to the OPSBA costs claim of \$145,000, because of the simultaneous involvement of OASBO. As expected, the costs claim was reduced by 50% for that reason.

Union had originally planned to follow up this case with a multi-year rate formula starting in 2005.

However, because of concerns about retroactivity, Union appears to have decided (they have not yet formally announced this) not to seek a rate increase in 2005, but to file next for 2006 rates late this year.

Enbridge 2005 Rates: On December 19, 2003 Enbridge filed their application for rates commencing October 1, 2004. This is a full cost-of-service proceeding. The filing requested a small decrease in gas distribution rates, and proposed a number of significant rate design changes (some of which could materially benefit schools).

The School Energy Coalition's participation was focused on those rate design changes, which would remove a major subsidy by industrial users from general service ratepayers including schools. The Coalition is also taking the lead, on behalf of a coalition of other intervenors, in opposing a proposal by Enbridge to recover about \$39 million of "notional" deferred taxes in 2005 and 2006 rates, and on the rate impacts of a change in year end.

In early June, Enbridge and the intervenors settled almost all of the issues in the case, including the rate redesign. As a result, it currently appears that rates for schools, commencing October 1, 2004, will be reduced by an average of about 4%. Further reductions (the redesign is being phased in) of 2% will be experienced over the following two years.

Both the deferred taxes and year end issues are among the nine issues left to be decided by the Board in an oral hearing, which is expected to end on July 7th. Legal argument will then follow, with a Board decision expected in the early fall. The remaining issues have the potential to reduce rates to schools by a further 5%, although 2% is more likely.

Enbridge DSM Consultative: Conservation (DSM) is a major source of future bill savings for schools. To

this end, the School Energy Coalition has been actively involved in the Enbridge DSM planning process, a funded process that includes program analysis and monitoring. The most recent Enbridge DSM plan for 2005 proposes spending of \$1.9 million on programs specifically for schools, with net benefits to schools of about \$4.6 million. A proposal will be delivered to Enbridge from the Coalition this month on ways of spending those funds efficiently.

Union DSM Consultative. The School Energy Coalition has joined the Union Gas DSM Consultative in April 2004. Union Gas has expressed an interest in developing programs targetted at schools in future DSM plans.

Natural Gas Policy Review. The Ontario Energy Board has established a process, which is expected to be funded with limitations, to review the generic policy issues in the natural gas industry. This process is expected to get going in the fall. The School Energy Coalition will have limited involvement, targetting only those issues of specific interest.

MAJOR ONGOING MATTERS - ELECTRICITY

Regulatory Assets: The local distribution companies have more than half a billion dollars of costs that were deferred at the time of electricity restructuring, to be collected starting April 1, 2004. The OEB has allowed them, without any hearings, to collect a portion of that total, something less than 25%, starting on that date, with hearings this summer to review the overall amounts. The hearings, scheduled to commence July 27th, will start by considering recovery by five major distributors (Hydro One, Toronto Hydro, Enwin, Enersource, and London Hydro), with an expectations that decisions made in that process will be applied to the ninety other distributors in the province.

Interrogatories were filed today, with responses expected in two weeks. The lead intervenor on many issues is Energy Probe, and the School Energy Coalition is focusing the bulk of its attention on cost allocation and rate design concerns. This process is also likely to be a dry run for full electricity regulation next year.

Regulation of Distribution Rates. The Ontario Energy Board is starting to ramp up for full “cost of service” reviews of the 98 electricity distribution companies, ranging in size from Hydro One and Toronto Hydro, to small local utilities with a thousand customers. To that end, a policy development process to deal with generic, common, and process issues has been announced by the Board, to commence July 6th. It is expected that some (limited) funding will be provided to ratepayer groups to participate in this process. The Coalition has met with the Board to express its concerns with limited ratepayer participation in this process, in light of the extent to which this process may decide future electricity rates. The Coalition will also be meeting with other affected ratepayer groups to discuss this process.

Regulation of Electricity Commodity Costs. The Minister of Energy has tabled legislation that will provide for regulation of the commodity side of electricity costs. That legislation will be the subject of public consultations over the summer, with passage as amended expected late this year. The regulatory process is not likely to start prior to spring of 2005.

OTHER ENERGY PROCEEDINGS

Gas Affiliate Relationships Code. The Board has proposed changes to the Affiliate Relationships Code for Gas Utilities, affecting a significant portion of gas bills. Because this is an unfunded process, the Coalition and most other ratepayer groups have declined to participate, and have voiced their concerns to the Board.

Reporting and Record-Keeping. As with the ARC changes, the Board has proposed changes to the utilities’ public disclosure requirements, but ratepayer groups including the Coalition have declined to participate because of lack of funding.

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