

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

September 30, 2013

*Over the less busy summer and fall, SEC has still been able to find an additional **\$6.5 million** in savings for schools, bringing the total this year to about **\$18.7 million**, and the cumulative total since 2004 to **\$129 million**.*

*The two largest results were the decision on Toronto Hydro, which saves **\$1.7 million**, and the negotiated settlement of the Union Gas five year rate formula, which saves **\$4.2 million**.*

Over the next 6-12 months, schools face some big cost issues, including \$17 million in the Enbridge 5 year rate plan, a \$32 million rate increase over 2 years sought by Ontario Power Generation, \$5 million being requested by Hydro One, and \$8.7 million awaiting a decision on the new electricity distribution rate formula.

ONGOING MATTERS – NATURAL GAS

Union Gas Rate Formula 2014-2018. Union Gas decided that, for its next five-year rate proposal, it would consult/negotiate with ratepayer groups before filing a formal application.

Consistent with that strategy, Union provided intervenors with a proposal that would have increased Union’s distribution rates by about 4% per year over the next five years. Over three months, ending in the summer, the utility and intervenors (co-lead by SEC) negotiated a full settlement. The end result, now approved by the Energy Board, will produce annual increases below inflation in every year. The average is expected to be about 1.6% per year.

As a result of this settlement, schools in the Union area are expected to save about **\$4.2 million** over five years.

Enbridge Rate Formula 2014-2018. Initially, Enbridge told intervenors, including SEC, that it planned to seek rate increases at or below inflation over the next five years. In a surprising change of tactics, Enbridge decided to jettison the formula approach altogether, and instead file a five year forecast of its budgeted costs. The forecast has Enbridge’s total costs increasing by about 30% over that period, partially offset by some accounting changes that simply delay some of the increase.

In the end, approval of the Enbridge proposal would cost schools about \$17 million extra over the next five years.

The Enbridge application is still in its preliminary stages. SEC has made this one of its key priorities over the winter. If this is not settled, a hearing is currently scheduled for late February, with a decision likely in May.

Enbridge and Union Capital Programs. Future rates for both Union Gas and Enbridge will be materially affected by their major capital spending program to reinforce facilities around the GTA. This was expected to be resolved by the summer, but was complicated and delayed by disputes between Enbridge, Union, Gaz Metropolitan and TransCanada Pipelines. The hearing was delayed, and then on the eve of the hearing the four utilities settled their disputes.

SEC is supporting in principle the construction of these reinforcing facilities, subject to ratepayer protections. A final decision is likely by January.

ONGOING MATTERS - ELECTRICITY

Toronto 2012-14 Rates. As previously reported, Toronto Hydro sought a rate increase to cover a large capital spending program for 2012-2014. If approved, the application would have cost Toronto schools about \$2.3 million extra over 2012 and 2013. SEC led opposition to the increases.

In a decision released in April, the Energy Board allowed part of the capital spending increase. The result will be extra rates for Toronto schools in 2012 and 2013 of around \$600,000, for savings totaling **\$1.7 million** over those two years.

Toronto Hydro has filed an update for 2014, asking for additional funding. SEC is reviewing the application.

Other 2013 Distribution Rates. Following its normal pattern, SEC also participated in the applications for rate increases by nine other local electricity distributors, including Thunder Bay, Sudbury, Stratford, Sault Ste.-Marie, Peterborough and others. All were settled by negotiation, with SEC as lead negotiator for the various ratepayer groups.

As a result of the settlements, the 279 affected schools will save more than **\$600,000** over the next four years.

Hydro One 2015-2019 Distribution Rates. Hydro One has advised stakeholders that, instead of accepting the normal formula for annual rate increases over the 2015-2019 period, it intends to file in February an application for much higher increases. Those increases, which will probably not be known until December, may be as high as 5% per year. The five year impact on the 1100 schools served by Hydro One could therefore be as much as \$5 million.

SEC intends to take an active role in that application when it is filed.

Other 2014+ Distribution Rates. The applications from electricity distributors for 2014 rate increases have started to arrive. Some of the larger ones scheduled to file include Kitchener, Cambridge, Burlington, Oakville, and Veridian. As well, some other distributors not scheduled to have extra increases, including Powerstream and Oshawa, have filed for extra amounts or are expected to do so.

Renewed Regulatory Framework. As previously reported, the Energy Board developed a new framework for setting rates for electricity distributors, and during the course of the spring and summer consultations took place to work out the details of that new plan. Of central importance is the formula to be used to adjust rates for most distributors each year.

At current inflation rates, the formula proposed by distributors would produce increases averaging more than 3% per year. The formula proposed by the ratepayer groups, led by SEC, would produce rate increases of about 1.35% per year. (The existing formula results in 0.58% annual increases.) The

difference in the ratepayer and utility proposals would produce about \$8.7 million in higher costs for schools over the next five years.

A decision by the Energy Board is expected before the end of November.

Ontario Power Generation. Fast on the heels of its 2013 rate application, OPG has recently filed for a rate increase for 2014 and 2015. The new application proposes a 28.6% rate increase, which for schools could amount to an increase of \$32+ million over the next two years.

As is always the case with OPG, there are many significant issues, and SEC will be fully engaged. To assist in its review of this application, SEC has brought back former Energy Board head of applications Mark Garner as a consultant, focusing on nuclear costs. Mark was a key part of the SEC team for the 2010 OPG application.

Hydro One Takeover of Norfolk Power. There has been a lull in takeovers within the electricity distribution sector in the last couple of years, but that appears to be changing. Hydro One, which has already acquired more than 90 other utilities, has now become active in seeking to acquire others, and it is apparently offering very high prices to do so. The proposed takeover of Norfolk Power is the first to come before the Energy Board for approval.

SEC's concern about these transactions stems from Hydro One's high distribution rates. When those rates are applied to affected schools after a takeover, their bills can go way up, something we have seen from the schools in the areas already acquired.

SEC has intervened to determine whether the takeover is in the interests of the affected customers. We expect that this is the first of what will be a number of such applications in 2014 and 2015.

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