

Savings for Ontario School Boards

*In the third quarter, SEC got a big win, but also a big loss. The August 30 decision on the Union/Enbridge merger, forecast to cost schools \$62 million over ten years, went mostly in our favour, with savings totalling \$44 million over ten years. On the other side, Hydro One was successful in their review of the phantom tax decision. While the final decision is not in, the review decision implies that schools will lose \$16 million of long term benefits. With other impacts, the SEC results in the quarter produced **net savings for schools of about \$28.7 million.***

In the final quarter of the year, the Hydro One Distribution rates for 2018-2022 will be set. As well, we will see high impact applications for Toronto Hydro 2020-2024 and Hydro One Transmission.

ONGOING MATTERS - NATURAL GAS

Enbridge/Union Merger. Enbridge Inc. the parent company of Enbridge Gas Distribution, bought Spectra, the parent company of Union Gas, at the beginning of 2017. The plan was always to amalgamate the two utilities so that the combined entity would serve almost all natural gas customers in Ontario. There was a lot of money to be saved by that combination. Enbridge, however, made this application to see if they could use Energy Board rules to get all of the savings, plus even more, for their shareholders for a ten year period.

If successful, the application would have allowed the amalgamated company to increase rates for schools by about \$62 million cumulative over ten years. Some of that was the result of increases applicable to all customers, but some of it, discovered only during the hearing, was the result of extra increases to apply to customers like schools and commercial businesses.

Needless to say, SEC led the opposition to this proposal.

In a decision reached at the end of August, the Energy Board adopted most of the submissions of

SEC, and approved a more limited rate plan, with lower rate increases and a five year time horizon.

The result is that, for the first five years, schools will see a cumulative increase in their bills of about \$5 million, instead of the \$20.4 million proposed by the utility. For the second five years, a further \$42 million increase for schools will now likely be in the \$13 million range. **Total savings will therefore be about \$44.4 million.**

It should be noted that the first five years' savings are fairly reliable. For the second five years, there is a good chance Enbridge will seek higher rates in a new application for 2023-2027.

The time for Enbridge to appeal this decision has expired. At present, it looks like they will proceed as the Energy Board has ordered.

ONGOING MATTERS - ELECTRICITY

Hydro One Phantom Tax Issue. In 2017 SEC achieved a major success. We fought a proposal from Hydro One to collect in transmission and distribution rates income taxes that they will not actually pay. In a decision about a year ago, the Energy Board essentially split the benefit of those tax savings, with the customers getting about 60%.

For schools, this meant about \$16 million of savings over twenty years, part of about \$19.2 million in savings in that case.

For Hydro One, though, the total impact would have been more than \$900 million, so they appealed everywhere they could. One of those appeals, a motion to the Energy Board to review the decision, has been successful. The Energy Board on review has determined that the original decision was wrong, and the phantom taxes should be collected from the customers and paid to the benefit of the Hydro One shareholders.

Although this review decision is appealable, an appeal by customers involves significant financial risk, with no assurance of success. SEC has determined that the balance of risk and reward in such an appeal, given the prospects for success, is not good enough to proceed on that basis.

Hydro One Distribution 2018-2022 Rates. It is now more than a year and a half since this application was filed, and a decision is still pending. The oral hearing was completed in June, and final arguments were completed in August. Forecast for a decision remains November or December.

At stake for schools is about \$9 million in increases over the next five years for the 1200 schools served by Hydro One as their distributor.

Toronto Hydro 2020-2024 Rates. Toronto Hydro, which is the distributor for around 800 schools, has filed their application to set rates for the five years starting in 2020. As expected, they have asked for an initial increase in 2020, plus inflationary increases for the subsequent years, plus additional money for their capital spending program. The net result is increases in the distribution portion of the bill for schools of just over 4% per year on average. The total impact for the Toronto school boards is a cumulative \$5.7 million extra over 2018 rates.

SEC will be an active participant in this proceeding. It is expected that the final decision will not be rendered before the summer of 2019.

Alectra Utilities. Alectra – the distributor for about 1000 schools in Richmond Hill, Markham, Vaughan, Brampton, Mississauga, Hamilton and St. Catharines – has now applied for 2019 rates. After the success of the intervenors, led by SEC, in the 2018 Alectra rate case, the utility's rate requests are much lower this year than would otherwise have been expected. They are requesting an average of 1.66% or about \$113 per school.

This is a matter that will likely be done entirely in writing. If there is no settlement during a negotiation scheduled for mid-October, a decision is likely to be rendered around December or January.

Other Electricity Distributors. Several other electricity distributors had their rates established for this year and beyond, in each case mostly by negotiated settlement with SEC as the lead negotiator for the customers. In aggregate, those results have produced about **\$400,000 in savings for the schools affected.**

OTHER MATTERS

Attack on Customer Representation. The results of the first couple of cases with limited intervenor involvement have not been positive (i.e. lengthy and costly), so the Energy Board is going to take the concept back out for consultation before any further moves in that direction.

Benchmarking. SEC has been a leader among customer groups in promoting better benchmarking between utilities, starting as far back as 2005. Slowly the Energy Board has adopted econometric and outcomes benchmarking, and many utility managers are getting on board with this approach. Recently, SEC's focus has been on Activity and Program-

based Benchmarking (APB), such as benchmarking the unit costs of common utility activities.

In part as a result of SEC's ongoing efforts, the Energy Board has launched an initiative to implement APB over the next couple of years. SEC counsel Mark Rubenstein, who has been actively promoting APB, has been asked to participate in the working group for this initiative.

Review of the Energy Board. The Dicerni panel reviewing the workings of the Energy Board - which was on hiatus, with its future in doubt, after the election - has been given a short time frame and limited budget to produce a final report. Panel members are working on that report, but the end result is not yet known.

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Questions? Contact Wayne McNally (wmcnally@opsba.org), Jay Shepherd (jay@shepherd Rubenstein.com) or Mark Rubenstein (mark@shepherd Rubenstein.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.



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