

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

August 30, 2005

The School Energy Coalition is currently reviewing the applications for 2006 electricity distribution rates, as well as participating in the rate applications of both gas distribution companies for 2006 and several other processes.

ONGOING MATTERS – NATURAL GAS

Union 2006 Rates: As a result of the Energy Board’s acceptance of the SEC submissions on 2006 rates, Union filed a letter seeking a 3% increase in 2006, with a ratepayer protection mechanism similar to 2005. SEC led the way in opposing this casual approach, and the Board agreed with us, ordering Union to file a proper application if it wants a rate adjustment. Union has now done so, but with no evidentiary support for the increase. SEC is intervening to oppose the increase until proper evidence is provided. Retroactivity may also arise as an issue, and SEC will oppose any retroactivity if it is proposed.

Enbridge 2006 Rates: Enbridge filed its 2006 application in March, requesting an increase of about \$96 million, which could represent a 10%+ increase for schools. This would represent a cost to schools in the Enbridge area of more than \$1.8 million in 2006.

After a lengthy and extensive process of written questioning, the parties participated in an OEB-ordered negotiation in July and August, but Enbridge was unwilling to compromise on any important issues. As a result, an oral hearing commenced on August 15th, and is expected to finish - nine weeks later - in mid-October.

Because of the large number of issues, which stretch the resources of most intervenors, SEC and others have taken the lead in organizing the ratepayer groups to split up responsibility for common issues. SEC will take the lead on about \$150 million of inter-affiliate charges, and on conservation-related issues. The timelines for this rate proceeding result from the

utility’s delay in filing (March instead of January, as originally planned). It is now unlikely that the OEB’s decision will be delivered in time for a rate increase on January 1st, as requested by Enbridge. SEC is taking the lead in opposing any retroactivity in the rate adjustment if rates are set later than January 1st.

Enbridge Demand Side Management Consultative: SEC representative Jay Shepherd was appointed last year by the ratepayer groups to represent their interests in the audit of the 2002 and 2003 Enbridge DSM results. Those processes are now concluded, with reductions in the net amounts claimed by Enbridge from ratepayers totalling more than \$2 million, as a result of issues raised by SEC. The intervenors have now asked SEC to represent them once more for the 2004 audit, which is commencing in September.

SEC DSM Co-ordinator. Enbridge has provided SEC with a draft contract for the three-year, \$360,000 DSM co-ordinator funding announced in April. When the contract is finalized and signed, SEC expects (in September) to engage in a search for the right full-time person, with the intent of hiring by early October.

Natural Gas Policy Review. The OEB continues to advance the principles established in its April 2005 report on the future of natural gas regulation. A schedule of several processes and proceedings, over the period 2005 to 2007, has been published that is expected to culminate in significant changes to how natural gas activities are regulated in Ontario. SEC will participate on a selective basis in issues that have the potential to impact school boards.

Natural Gas Electricity Interface Review. An early component of natural gas regulatory change is the Natural Gas Electricity Interface Review, scheduled for September 2005, which is looking at policies for natural gas based electricity generation. One of the

key issues is which customers (electricity vs. natural gas, large vs. small, residential vs. commercial, etc.) will be forced to pay the significant incremental costs expected as natural gas generation in Ontario expands. SEC has applied to be a full participant in the initial consultation, and intends to pursue the issues raised as the process continues after September.

ONGOING MATTERS - ELECTRICITY

2006 Distribution Rates. Electricity distribution companies have now started to file their applications for 2006 rates. Under the rules developed by the OEB for this process, the applications of 32 LDCs (generally the largest ones) were due August 2, 2005, with a further 32 early September and the remaining 32 in October. New rates are expected to go into effect on May 1, 2006.

About 25 applications have been filed so far, and SEC has taken the lead in contacting the applicants, arranging for copies of their applications, and working with other ratepayer groups to share information. SEC has intervened in all, but has written to the distributors advising that our level of participation for each LDC will be assessed once their application has been reviewed. We are getting much less resistance to our involvement than we did in the spring of 2004 and the spring of 2005.

A meeting of all ratepayer groups will be held early in September at SEC's suggestion to discuss a more rigorous division of responsibility for analysis of the applications. It is likely that, because many of the applications rely on a formula approach to rates, a limited involvement will be possible for many of those. Where applications reveal anomalies, or they take a more complex approach to rate-making, it is likely that some or all ratepayer groups will have to intervene actively in the rate proceedings. Hydro One and Toronto Hydro are two that are expected to be in the latter category.

Our first review of the applications shows that distribution rate increases ranging from 7% to more than 18% are being requested. In total, we anticipate that the applications will be seeking \$8-\$10 million of rate increases in the 2006/7 rate year from schools.

Electricity Cost Allocation. SEC was actively involved last fall and winter in an OEB process that set the rules for 2006 and future electricity rates. However, that process dealt only with the overall costs that utilities will be able to recover from ratepayers (the "how much?" question). It did not deal with how those costs are allocated between ratepayers (the "who pays?" question), an issue of particular concern to schools.

The OEB has now commenced a new process to develop a set of cost allocation rules by early 2006. It invited applications from stakeholders with cost allocation experience to sit on a technical committee. SEC representative Darryl Seal was one of four ratepayer reps selected by the OEB for that committee. Its work commences September 21.

Deferral and Variance Accounts. The OEB has announced a consultation to determine how the deferral and variance accounts of distribution companies can be charged or credited to ratepayers on a periodic basis. This is the ongoing process that would replace the "Regulatory Assets" proceeding, in which SEC was actively (and very successfully) involved last year. The amounts can, in any given year, be substantial. Because the process proposed by the OEB largely precludes participation by ratepayers and other intervenors, SEC has sent a letter of comments to the OEB, proposing changes to make the process more transparent and open.

OTHER ENERGY PROCEEDINGS

SEC worked in the spring with the Catholic School Boards Services Association ("CSBSA") and their consultants, Aegent Energy Advisors, on commodity-related issues in electricity. CSBSA reports that most school boards have now signed up for an energy commodity purchasing consortium. In light of recent electricity price volatility, and the built-in bias (about 10%) in regulated commodity prices against large volume users like schools, we continue to recommend that all remaining boards investigate consortium purchasing as soon as possible.

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