

SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

June 2, 2008

The School Energy Coalition has built on the successes at the start of this year (over **\$12 million in savings**), with strong results in
Hydro One Harmonization Plan - **\$2.6 million+ savings** (so far)
Toronto Hydro - **\$4.5 million savings** or more
Other Electricity Distributors – about **\$1 million savings**

Still on the agenda for this year, new rates for **Ontario Power Generation**, continuation of the **Hydro One Distribution** case, **Horizon Utilities** multi-year rates, **Electricity Rate Design**, and the **Integrated Power System Plan**

ONGOING MATTERS – NATURAL GAS

Union 2008-12 Rates. As previously reported, after a lengthy negotiation Union Gas rates have been set for five years, fixed at a level well below inflation, and resulting in a substantial saving for schools. There remained outstanding an issue of how to deal with upcoming tax changes, and SEC took a leading role in a hearing in April on that subject. At issue is \$1.6 million or more over five years for schools. A decision is pending. Subsequently, SEC has received further information from the Bank of Canada relevant to the case, and has filed it with the Energy Board.

Enbridge 2008-12 Rates. Enbridge Gas Distribution reached a settlement with all parties for a five year deal, as previously reported. The rate order has now been filed and approved, and new rates based on a below-inflation formula are now in place.

Natural Gas Cost Allocation. The Energy Board has initiated a consultation with stakeholders to review how costs are allocated between distribution, commodity, and load balancing charges. Since schools usually buy the natural gas commodity from a supplier other than the utility, any change in allocation methodology could have a substantial impact on the overall cost of natural gas to schools. With that in mind, SEC will be actively involved in this as it moves forward into the summer.

ONGOING MATTERS - ELECTRICITY

Hydro One 2008-12 Distribution Rates. Hydro One applied for another large increase in distribution rates for 2008, and that increase is expected to apply with only

small changes for 2009 through 2011 or 2012 as well. The overall impact on school boards over the first four years has been calculated at about \$5.1 million, made up in part by a cost increase (about \$1.4 million), and in part by a plan to harmonize Hydro One’s rates between the old, largely rural area, and the larger towns, many of them franchises acquired more recently (the other \$3.7 million).

SEC worked with Hydro One co-operatively from the outset to understand the harmonization plan, and to quantify with precision the impact on school boards. Many school boards assisted by providing detailed billing data for their affected schools.

As a result, Hydro One has reviewed their expected school board bills going forward, and has re-assigned a number of schools to different rate classes, with the result that on new figures **the cost of harmonization for schools is expected to be reduced by about \$2.6 million** over four years.

On the cost increases and other related issues, a hearing will commence in July to deal with those matters. SEC will take a leading role.

Toronto Hydro 2008-12 Rates. Toronto Hydro applied for increases of about 9% for each of the next three years, potentially a \$5 million incremental cost to Toronto schools. SEC was very active in the hearing, which resulted in a decision in April. The decision, critical of the utility in many areas, allowed smaller rate increases for 2008 and 2009, and provides that for subsequent years Toronto Hydro should live with the

overall formula being determined by the Energy Board for multi-year rates.

The net result appears to be a **reduction in bills to Toronto schools over the next four years of about \$4.5 million.** In addition, SEC has identified what appears to be an error in the decision, and has brought it to the Energy Board's attention. If they agree, the savings should be a further \$0.5 million or more.

Horizon Utilities 2008-12 Rates. SEC worked closely with Horizon (Hamilton and St. Catherines) to communicate priorities for their 2008 rate application. Despite the friendly relationship, Horizon took a very hard line in their rate application, and sought to avoid a hearing despite serious issues in the amounts sought. Large increases for schools were proposed (more than \$2 million over five years). Led by SEC, the ratepayer groups asked the Energy Board to order first a disclosure process, then an oral hearing which was held in early June. A decision is expected in August.

Other Electricity Distributors' 2008-12 Rates. SEC has also participated in the 2008 rate applications of many other electricity distributors, including Oshawa, Halton Hills, Hydro 2000, and others. Most decisions have now been released, with **total savings for schools in the range of \$1 million+ over the next four to five years.**

Third Generation Incentive Regulation. After participating in a select working group to design the formula for electricity distribution rates after 2008, SEC was pleased to see that initial Energy Board proposals are in line with many of the SEC positions. After two further cycles of consultation, the Energy Board is now on the verge of announcing their proposed new policy. It is likely that it will give rate stability for distribution for a minimum of four years, on a staggered basis.

Electricity Distributors' Rate Comparisons. The School Energy Coalition led the fight for more than two years to have the performance of the province's 80+ electricity distributors compared, and rate consequences ordered based on relative performance. Most recent proposals by the Energy Board now appear to have accepted that less efficient utilities will get lower increases over the next four years, and more efficient utilities will have more generous increases. While there is no way of calculating the impact of this with rigour,

we estimate that the effect of "yardstick competition" amongst utilities will save school boards more than a million dollars every year when fully realized.

Electricity Rate Design. Electricity distribution rates have been using a structure established in 2000, based on a far older model, neither of which is particularly beneficial to schools. After a year of consultation, the Energy Board has now started to float some ideas for revising rate design. Some could provide substantial savings to schools. SEC has been an active participant in this policy development.

Integrated Power System Plan. The Ontario Power Authority's 20 year electricity plan for Ontario will be considered in a massive hearing, originally expected to be in the summer and now likely deferred until the fall. SEC is intervening selectively to protect the interests of school boards in this process.

Ontario Power Generation Prices. Ontario Power Generation has applied for an 18% rate increase for its nuclear and large hydroelectric generation for 2008, which would flow through to all electricity users in the province. The hearing has proceeded through much of May and June, with SEC and other intervenors exposing weaknesses in the budget estimates of OPG. A decision is expected near the end of the summer.

ONGOING MATTERS - OTHER

International Financial Reporting Standards. A proposed 2011 change in accounting rules for utilities has the potential to increase rates for regulated activities such as distribution and transmission by as much as 15%, without any additional expenditures by the utilities. The Energy Board has recently initiated a process to determine how to handle this, and SEC has taken the lead in pushing for early involvement by ratepayers.

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