

SCHOOL ENERGY COALITION ("SEC")

SUMMARY STATUS REPORT

February 12, 2010

In 2009 SEC has been able to report savings of about \$6.7 million for schools. 2010 is also starting out well, with additional decisions or negotiated settlements totalling **\$925,000** in savings so far.

On the other side of the ledger, in December the Energy Board, on its own initiative and over our strenuous objections, raised the allowed profit level for the shareholders of regulated utilities (mostly municipalities and the provincial government). This will result in an **incremental electricity bill increase, either in 2010 or 2011, of about 4.4%**, over and above all other impacts. .

ONGOING MATTERS - NATURAL GAS

Union 2010 Rates. Union Gas has been granted new rates starting in January, with an average increase of less than 1%. SEC monitored the application, but the utility used the formula we negotiated with them in 2008, resulting in the low increase for this year.

Enbridge 2010 Rates. Enbridge, under a similar formula to that of Union Gas, included in their application a number of add-ons that would have put the rate increase at 5% or more. Key among these was a plan to get into the renewable energy business, with their gas customers taking the risk and cost. SEC and others opposed this proposal, and in January the Energy Board ruled that the ratepayers should not bear this cost. As a result, the current proposed increase is reduced to about 3%, **a saving of about \$400,000 per year for schools.**

The remainder of the application is still being considered, and we are still aiming for the 1% target.

ONGOING MATTERS - ELECTRICITY

Cost of Capital Consultation. Early in 2009, after hearing complaints from many utilities about their allowed profit levels (8.01% of their equity, at that point in time), the Energy Board launched a review of their fifteen year old cost of capital formulae. Although not allowing for formal evidence, the process included extensive public meetings and debates, as well as written input to the regulator. Utilities mounted an all-out attack, with many "experts". In December, the Energy Board decided to increase the current profit level to 9.75%, which translates to a 4.4% rate increase for all Ontario utilities. For schools in the Hydro One, Toronto, Kitchener and Cambridge areas (as well as several others), this will start May 1st of this year. For most others, it will start either January 1st or May 1st of 2011. **All school boards should consider including an extra increase in the "delivery" component their electricity costs in their upcoming budgets to reflect this change.**

This increase is in addition to the impact of HST, and the normal increases most utilities request each year.

This profit level change also translates into a 12% increase in the market value of utilities such as Hydro One and Toronto Hydro, if their government owners decide to sell all or part of their shares. For Toronto, for example, that is an increase of about \$250 million.

Hydro One 2010/11 Distribution Rates. Hydro One is currently seeking a 17% rate increase in 2010, and a further 12% in 2011. Part of this is the 4.4% profit level increase, and part is their extensive green energy infrastructure spending plan. Final arguments have been filed, and a decision is expected shortly.

The issue of rate harmonization also continues to be important. SEC's expert, and that of Hydro One, battled in oral testimony, with our expert gaining substantial respect. The goal is to have a proper cost allocation study done, so that rates for the Hydro One urban areas, where we have most of the schools, fairly represent costs to serve customers in those areas.

Toronto Hydro 2010 Rates and other applications. Toronto Hydro sought a rate increase that would have increased rates to Toronto boards by about 32%. After an intensive negotiation, in which SEC played a key role, the final negotiated settlement will produce an increase for schools of about 10.5%. **This is a saving of about \$175,000 for Toronto boards.** Some issues remain to be decided by the Energy Board, but the net effect is expected to be unchanged.

Toronto also sought extra recovery of about \$14.4 million spent on contact voltage problems in 2009, and proposed an extra charge to customers in 2010. SEC opposed recovery. In a December decision, the Energy Board reduced the recovery by \$5 million, plus a further reduction when the 2009 audited financials are available. The impact on Toronto schools is small, but the precedent value of the decision was important.

Other Electricity Distributors' 2010 Rates.

Agreements have been reached in the rate cases of several distributors, including Kitchener, Cambridge, Chatham-Kent, Orillia, Essex, and Orangeville. All sought relatively high increases, to which the 4.4% profit increase was added. In each case, a negotiated settlement has reduced it to a more reasonable amount. **In total, these settlements have achieved more than \$250,000 in savings for the affected schools.**

A number of mid-sized distributors have applications still outstanding, including Burlington, Oakville, and Veridian, in total impacting more than 250 schools.

Horizon Z Factor. Horizon has applied for recovery of an estimated \$2.9 million of losses arising out of the shutdown of one of their large customers. This was originally expected to be an extra bill, this year, of about \$135,000 for Hamilton and St. Catherines schools. The potential bill for those 302 schools is now down to \$100,000, but SEC continues to oppose this unnecessary recovery entirely. An Energy Board decision is expected in March.

Renewable Energy Initiatives. Energy Board policies and programs relating to renewable energy projects, including those related to schools, have been developing over the last several months. SEC goals - to keep generator costs down and socialize incremental costs as part of the overall commodity cost - are generally finding favour in most of those policy announcements.

Deferred Taxes. This generic hearing, which has been going on for two years, involves hundreds of millions of dollars of tax adjustments over the period 2001-2006, now sitting in deferral accounts at the electricity distributors. SEC has been taking the lead amongst the intervenors in the calculation and allocation of these amounts, which will in some cases be extra bills to customers, and in other cases refunds. Legal arguments ended with an interim decision in December, and a full hearing is now expected by June.

Ontario Power Generation. Preliminaries have now commenced for the OPG 2011-12 rate application, with a decision on the requirements for the application. Filing is planned for the end of March, with a decision likely late in the year. At stake will be a large expected increase in about 50% of the electricity bills of Ontario schools.

Green Energy Act. Two utilities have filed the first of the many expected infrastructure improvement plans under the Green Energy Act. For one smaller utility that is known as an “early adopter”, it was agreed that their plan will not be approved, but they will resubmit this fall when further information on plan requirements is known. For Hydro One, with \$1.9 billion in GEA spending planned over five years, a decision from the Energy Board is expected within a few weeks.

OTHER MATTERS

Representation. An EOI process to enter into a new representation contract for lawyers and consultants was completed by SEC in February. Jay Shepherd was selected from amongst the competing firms to continue as lead, with senior energy consultants and counsel assisting as required.

Jay Shepherd
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