SCHOOL ENERGY COALITION (“SEC”)

SUMMARY STATUS REPORT

March 15, 2011

2011 has started out well for SEC interventions, generating savings for schools of **$11.6 million** already this year. On a cumulative basis, schools have now saved just over $81 million by being actively involved in the energy regulatory process.

The good results arise mainly from three big cases – Hydro One Transmission 2011/12 **($2.4 million**), Ontario Power Generation 2011/12 **($7.2 million**) and Toronto Hydro 2011-14 **($1.4 million**). The remainder is smaller electricity distributors.

This spring will include a number of other distributors (Kingston, Horizon, Niagara, etc.), and the first of the utility conservation plans. Those plans may involve the spending of more than a billion dollars over the next four years, meaning schools could face an added cost of $5 million per year.

ONGOING MATTERS – NATURAL GAS

Gas DSM Framework. A January paper by the staff of the Energy Board proposed that the conservation activities of the two major gas utilities be increased dramatically. As proposed, schools would have faced an increase in conservation costs in their gas rates from the current $1.1 to $2.8 million per year. While SEC has supported gas conservation in the past, this increase does not appear to be timely.

In the consultation process that has followed, SEC has taken the lead amongst ratepayer groups in asking whether either the status quo, or even a reduction in utility spending in this area, should also be considered. To the surprise of many, SEC’s position has struck a responsive chord at the Energy Board, who are expected to convene a special meeting of all stakeholders in April to consider these questions.

Formula Ratemaking Framework. Both Enbridge and Union Gas are in the fourth year of a five year formula-based ratemaking plan (2008-2012). The Energy Board has now started a process to establish the guidelines for the next period of formula ratemaking.

SEC continues to take the position - very successful last time around - that both utilities and their customers benefit from lengthy periods of stable rates, with average increases set at or below inflation.

ONGOING MATTERS - ELECTRICITY

Hydro One Transmission 2011/12. Hydro One sought a total of about $3 billion in transmission rates for the two years 2011 and 2012. In addition, their bulked-up capital plan was forecast to add another $2.2 billion of spending in those years. For schools, it would have meant $8 million more costs now, plus a $33 million bill in future years for the capital. SEC took the view that a more moderate budget was appropriate.

A decision released by the Energy Board at the end of the year ended up being a “good news/bad news” kind of story. On the good news side, transmission bills for schools were reduced by about $2.8 million over the two years. As well, the capital plan was cut back, reducing rates in future years by another $2.6 million.

There was a “but”. An accounting change meant that $200 million of capital spending had to be recast as an operating cost. This means 2012 rates for schools will have one-time increase of $3.0 million, wiping out the short term gains. The net result is that **schools will experience transmission rate savings over time of $2.4 million,** but nothing in the 2011 and 2012 years**.**

The Power Workers’ Union has appealed key aspects of this decision to the Ontario Divisional Court.

Ontario Power Generation 2011/12 Rates. OPG applied last May for rates totaling (after all adjustments) about $8 billion in 2011 and 2012. This represents their annual costs for the Darlington and Pickering nuclear stations, and the Beck (Niagara) and Saunders (St. Lawrence) hydroelectric stations. Schools pay for these costs through the Global Adjustment Mechanism, which is an overlay to the market prices for electricity. The all-in increase for schools was about $8.6 million over two years.

In a decision issued last week, the Energy Board cut back the amounts to be paid to OPG, **thus saving schools at least $7.2 million over those two years.**

Of particular interest was a complicated tax issue that straddled the time at which OPG became regulated. SEC was asked by the other parties to be the lead intervenor, and argued for a long-term ratepayer benefit which would have saved schools an additional $9 million. The Energy Board rejected our arguments entirely. An appeal is under consideration.

Remaining 2010 Rate Applications. The last four 2010 distribution rate applications were completed in December and January, with **total savings for schools of about $310,000 over four years**.

Toronto Hydro 2011 Rates. Last summer Toronto Hydro applied for a 2011 rate increase of about 8.5% (for schools), less a cost allocation adjustment to reduce it to 5.5%. For the 800+ schools in Toronto, bills would have increased by more than $320,000 per year. Further, Toronto Hydro made clear that they were going to come back for another substantial increase for 2012.

Facing significant resistance from all ratepayers, Toronto Hydro modified their application to reduce the increase through accounting changes. The amount and timing of spending did not change. Some of it was treated as deferred instead of being included in the current year.

The ratepayers, with SEC as lead negotiator, reached agreement with Toronto Hydro in early March on terms of settlement that will see the $300,000 annual rate increase for schools change, after the accounting adjustment, to a rate decrease of about $40,000 per year. Further, after consistent pressure from SEC and others, the Energy Board has announced that Toronto Hydro is not on the list for a full rate application next year. Assuming that holds for the full four years (Toronto Hydro will likely challenge it), **the total saving for schools from this settlement is likely to be $1.4 million.**

Horizon 2011 Rates. Horizon was one of three distributors who sought special rate increases for 2011 despite not being scheduled for a full hearing until 2012. As previously reported, Hydro Ottawa's request was denied, and recently Norfolk Power's similar request was also denied.

Horizon, on the other hand, has been allowed to proceed. SEC, while conscious that they have unique challenges, will be opposing their large spending increases as being inconsistent with a utility under pressure from declining revenues.

Other 2011 Rate Applications. Aside from Toronto and Horizon, SEC has participated in 2011 distribution rate applications for twelve other utilities with about 600 schools. Eight of these are substantially complete, **with total savings for schools of $260,000**.

On two – Kingston and Brampton – full hearings were held, and decisions are expected in March and April. The remaining two – Niagara and Woodstock – are still continuing. 2012 applications will start in May.

Distributor Conservation Plans. Hydro One and Hydro One Brampton were first out of the gate with conservation plans for the 2011-2014 period, followed closely by Toronto Hydro. They proposed substantial budgets for locally-developed conservation programs, and neither had plans that target schools. SEC is urging a careful review of the customer implications of these spending plans. As a result, Hydro One has withdrawn their two applications, but Toronto Hydro is continuing and will have a hearing in May.

OTHER MATTERS

Ontario Energy Board. The Ontario government has announced that Rosemarie Leclair, formerly CEO of Hydro Ottawa, has been appointed as the new Chair of the Ontario Energy Board.

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