SCHOOL ENERGY COALITION ("SEC")

SUMMARY STATUS REPORT

December 31, 2013

*SEC achieved some success in the debate on the new electricity distribution rate formula, and negotiated a reasonable settlement in the Toronto Hydro 2014 rate proposal. Those two results will save **$8.9 million** for schools. The final total for 2013 from SEC's work is thus about **$27.6 million**, and the cumulative ten year total has reached **$138 million**.*

The three biggest cases to be decided in 2014 are the Enbridge 5 year rate plan ($17 million impact), the Ontario Power Generation 2 or 3 year rate plan (up to $48 million impact), and the Hydro One 5 year distribution rate plan ($31 million impact).

ONGOING MATTERS – NATURAL GAS

Union Gas 2014 Rates. Union Gas will have its rates set for 2014-2018 on a formula negotiated in the summer, and savings have already been reported. The rates have now been calculated for 2014. Schools in the north will see a decrease in the delivery portion of their Union Gas bill of about 10%. Schools served by Union Gas in the south of the province will see a 2014 delivery rate increase of less than 1%.

Enbridge Rate Formula 2014-2018. Unlike Union Gas, Enbridge has sought five years of rates based on their forecast of actual cost increases. As a result, the additional amounts being sought from schools are $17 million over those five years.

The initial discovery process on this application has now taken place, and a formal negotiation is scheduled for the end of January. If it is unsuccessful (the utility and ratepayers start out very far apart in this case), a hearing will be held in February and March, and a decision could be seen by June. SEC expects to take a leadership role in this proceeding.

Conservation Spending and Bonuses. SEC remains active as a member of Energy Board sanctioned committees overseeing, and auditing, the conservation spending of Enbridge and Union Gas. As a result of enhanced disclosure sought and obtained by SEC in the Union Gas 2012 audit, SEC identified a problem with how gas savings are being calculated by both utilities. In some cases, it appears that savings may be overstated by substantial amounts.

SEC has applied this new information to argue for a reduction in the 2011 Union Gas shareholder incentive. The immediate impact would be small, but getting these calculations right has important long term benefits. A decision is expected in January

ONGOING MATTERS - ELECTRICITY

Toronto 2014 Rates. Having received a rate increase to cover incremental capital spending in 2013, Toronto Hydro filed in the summer for similar funding for 2014. The proposed 2014 increase for Toronto schools would have been about **$200,000**. The request was essentially identical to the already approved 2013 spending, so seemed destined for approval.

Led by SEC, ratepayer groups negotiated a final settlement with Toronto Hydro in December. The result will be no incremental capital rate increase in 2014. Further, elements are included in the agreement to preserve a ratepayer credit in 2015 for likely underspending by Toronto Hydro in 2013.

Hydro One 2015-2019 Distribution Rates. In December Hydro One filed the first part of its application for rates over the 2015-2019 period, and the news is worse than expected. Average increase for schools appears to be more than 80% over five years, so for the 1100 affected schools, the cumulative impact could be as much as $31 million. Those schools, which together pay less than $12 million per year today, would under this proposal pay more than $22 million in 2019.

The process is just starting, and SEC is fully engaged. A decision is not likely until the fall of 2014.

Toronto Hydro 2015-2019 Rates. Perhaps in part because of their limited success in their last two applications, Toronto Hydro has advised regular intervenors that they will be filing a five year rate application (2015-2019) in May or June. Although no details are available yet, increases of 5-6% per year will likely be included in their proposal.

Other 2014+ Distribution Rates. A number of electricity distributors, including Kitchener, Cambridge, Burlington, Oakville, Powerstream and Veridian, have filed for 2014 rate increases in excess of the inflation-based formula. SEC remains actively involved in each of those applications, with decisions or agreements expected in each before the end of April.

Electricity Distribution Rate Formula. Rates for electricity distributors are set on a five year cycle, usually with rates based on a budget for the first year, then a formula for each of the next four years. The formula increases rates by inflation, adjusted for expected productivity improvements. This fall the Energy Board engaged in a process to establish that formula for 2014 and at least five more years. SEC continued to take the lead among the ratepayers.

In a report released in November, the Energy Board has essentially sided with the ratepayer groups, approving a formula that should result in about 1.35% per year at current inflation rates (as opposed to 3.00% proposed by utilities). Over the next five years, this should save Ontario schools about **$8.7 million.**

Perhaps more important, SEC stood alone in warning the Energy Board about the dangers of routine incremental capital funding. While the Energy Board did not make any explicit changes to its policies as a result of our submissions, it expressly acknowledged the problem, and signalled that it will now be more hesitant to grant these additional rate increases.

Ontario Power Generation. As previously reported, OPG has applied for a 28.6% rate increase over 2014 and 2015, a potential $32 million cost increase for schools. Further, if OPG follows its past pattern, it will seek to leave those new rates in place for 2016, increasing the impact on schools to more than $48 million over three years. Despite recent negative press about its remuneration levels, OPG has not modified its rate increase proposal.

SEC has assembled a team to fight this, and considers it our top 2014 priority. The schedule has not been completely laid out, but based on current projections a decision is not likely until June or July.

Hydro One Takeover of Norfolk Power. Hydro One, which is one of the highest cost electricity distributors in Ontario (and proposing big increases – see earlier), has now embarked on a new round of offers to buy other distributors. Any such deal must be approved by the Energy Board after considering impact on the ratepayers, applying a test called the “no harm” test. The first such transaction to come up for approval in this new round is Norfolk Power, a small distributor southwest of Hamilton.

Hydro One has taken the position that the potential for large rate increases after an acquisition by Hydro One should not be part of the Energy Board’s analysis. SEC has filed a motion seeking a ruling on that point, and seeking information on future rate increases for Norfolk customers. The motion was argued in December, with a decision expected in January.

This case is expected to be an important precedent in respect of dozens of other acquisitions for which approval will be sought in 2014 and 2015.

OTHER MATTERS

Engineering Support. Among the new rules being implemented for electricity distributors is a requirement to file multi-year capital spending plans, including an analysis of the condition of their existing assets. To assist SEC in reviewing those plans, we have recently hired an engineer, Chi Dioso, as a part-time trainee. This will allow us to determine whether additional technical capability can enhance the quality of our interventions.

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