

Savings for Ontario School Boards

In Q4 2015, the pace of a number of proceedings slowed, but there were still some important results, aggregating \$3.2 million in savings for schools. This brings the 2015 total to about \$16 million.

In the biggest case, Toronto Hydro 2015-2019 rates, SEC was successful in saving schools about \$2.5 million over five years. Negotiations in Kingston Hydro and Union Gas, as well as some limited success in the Oshawa case, made up the balance of the savings.

2016 will see the largest rate application in Ontario history, the \$25+ billion Ontario Power Generation case. It may also be the year that the Energy Board seeks to limit the ability of SEC and other customer groups to participate in rate cases.

ONGOING MATTERS - NATURAL GAS

Conservation Programs. The long-awaited decision on the Enbridge and Union Gas conservation programs for 2016-2020 was delayed from November to December, then delayed further, and now is expected in mid-January. SEC's continuing theme has been: *Higher budgets=Higher expectations.*

Union Gas 2016 Rates. Consistent with the negotiated settlement worked out in 2014, Union Gas sought a 2.3% increase for schools in 2016. After negotiations, this was changed to a 2.6% decrease, resulting in savings for the affected schools of about \$350,000.

Union Gas Community Expansion. In response to a new provincial government policy supporting the expansion of natural gas service, Union Gas has applied to expand its service into numerous smaller Ontario municipalities. None of the expansions are cost-effective, so each expansion would be funded in part by the provincial government, in part by the new customers, and in part by existing customers. Enbridge is expected to file a similar application in the next couple of months.

The application is complicated by two factors: a) new companies want to compete to provide this gas service at lower cost, but the Union Gas

application would make that difficult; and b) the upcoming cap and trade regime for greenhouse gasses will affect the costs - and perhaps also environmental benefits - of new natural gas loads in the province.

Since schools have both costs and benefits from natural gas expansion, SEC is playing an active role in this proceeding.

ONGOING MATTERS - ELECTRICITY

Powerstream/Horizon/Enersource/Brampton "Mega-Merger". The application to approve the merger of these four large urban electricity distributors was expected to be put before the Energy Board in December. Continued discussions between the merger participants have resulted in a further delay, and the most likely date for the application is now early March. SEC will be an active participant, supporting the merger in principle but seeking to ensure that benefits are not appropriated to the shareholders instead of being shared with the customers.

The Energy Board has refused to consider the rate implications of the merger in the current Powerstream rate proceeding. In response, SEC has, for the first time in its history, filed an appeal to the Ontario Divisional Court, challenging that refusal. The appeal is currently

in abeyance, awaiting the final outcome of the rate application.

Toronto Hydro 2015-2019 Rates. As expected, the Toronto Hydro five year rate decision was finally released on December 29th, after several months of delays. Toronto Hydro had originally requested almost \$1.1 billion of additional rate revenues for the five years 2015-2019, despite their history of poor cost performance relative to industry peers. Toronto schools faced an increase of 47% over the five year term, with a total estimated impact of about \$10 million. Other customers faced similar increases.

Ratepayer groups, led by SEC, mounted intense opposition to the proposals, despite a general expectation in the industry that the Energy Board would approve the application largely as filed.

In the end, the Energy Board approved increased rate revenues of about \$800 million, or 75% of the increases requested. The poor benchmarking results for Toronto Hydro were largely ignored, and the Energy Board instead focused on granting most of the utility's requests for additional capital budgets. The proposed five year capital budget of \$2 billion was reduced by 10%. It remains substantially above historical levels.

For schools, distribution rates will increase by 35% instead of 47% over five years, and the cumulative additional cost will be about \$7.5 million, instead of \$10 million. Savings from the SEC intervention will therefore total **\$2.5 million**. Going forward after 2019, the starting point for rates will be about \$700,000 per year lower, although there is no guarantee the lower starting point will ameliorate future rates.

Powerstream 2016-2020 Rates. Powerstream, the largest of the participants in the "mega-merger", was supposed to have its rates recalculated in 2017, but decided to come in one year early for a new five year rate plan. While Powerstream was adamant that their upcoming merger was not a factor in the timing, the result, if their application is approved, is an additional \$275 million from customers over 2016-2020. This is in addition to merger savings over the same period of about

\$112 million, which the Energy Board has said cannot be considered in determining rates. The basis of the high increases is, as with Toronto Hydro, a (dubious) claim by the utility that massive additional capital spending is urgently needed.

Schools, for example, who for the last ten years have had rate increases from Powerstream averaging 1.10% per year, would now face 8.15% per year for the next five years. This arises because Powerstream's costs are increasing at an accelerating pace. In 2010, Powerstream's costs were 7.4% below the 2010 industry benchmark. By 2020, SEC calculates that their costs will be 27.9% above the 2020 benchmark. Negotiations in October were not successful, so a hearing was held in November. Written submissions, due in December and January, will be followed by a decision of the Energy Board, probably in March or April.

Kingston 2016-2020 Rates. Customer groups, led by SEC, reached a five year agreement with Kingston Hydro, and it has been approved by the Energy Board. Kingston Hydro had proposed rate increases for schools totalling 17% over five years. Instead, the 41 affected schools will see a rate decrease over that period of about 6%. Total savings will be about **\$310,000**.

Oshawa 2015-2019 Rates. Oshawa Hydro's 43% rate increase over five years was reduced to about 35% after a contested hearing. The 68 Oshawa schools will have a **\$50,000** saving over that period, with their cumulative increase cut from \$400,000 to \$350,000. Their rates will remain below Ontario averages, however.

OPG 2017-2021 Rates. The largest electricity generator in the province, Ontario Power Generation, has announced that it will file its five year rate application in April, covering the 2017-2021 period. This will be the biggest rate application in Ontario history, a total of more than \$25 billion in rates. \$450-500 million of that cost would be borne by schools. SEC is already preparing for this proceeding.

OTHER APPLICATIONS

Role of Intervenors. Legislation recently passed by the provincial government will allow the Energy Board to restructure how customer interests are represented in their hearings. While no details are known, it is possible that the activities of SEC and others may be curtailed by the new rules. SEC will be actively involved in assessing the impact of any proposed changes on the interests of customers, and will of course oppose any changes that are inconsistent with the best interests of schools.

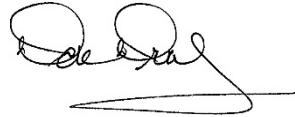
Jay Shepherd
Counsel for SEC

Questions? Contact Wayne McNally
(wmcnally@opsba.org) or Jay Shepherd
(jay.shepherd@canadianenergylawyers.com)

In conclusion,

OESC is represented by Jay Shepherd who consults regularly with myself and Wayne McNally, who is an advisor to the OESC Board of Directors. It is critical to note that the work of the School Energy Coalition, per OESC, is a respected intervenor at the Ontario Energy Board.

Our work has allowed every school district in the Province of Ontario to avoid significant energy costs. This reality assists with the bottom line to your budget.



Don Drone
Executive Director
Toronto Office 416-340-2540
Mobile 519-837-7719 or ddrone@oesc-cseo.org