OESC CSEO Ontario Education Services Corporation La corporation des services en éducation de l'Ontario

School Energy Coalition ("SEC")

Summary Status Report
June 30, 2017

Savings for Ontario School Boards

*The pace at the Energy Board continued to slow down in the second quarter, although many important cases were in process or upcoming. The Hydro One Transmission decision remains outstanding, with the delay becoming surprising. The Ontario Power Generation hearing finished, and arguments were filed. With few completed cases, Q2 savings are about **$260,000.***

Q3 will include the Hydro One Transmission decision and probably the Thunder Bay decision, but not resolution of the biggest case - OPG. New cases expected in Q3 will be Hydro One Distribution, Alectra 2018 Rates, and the merger application for Enbridge and Union Gas.

ONGOING MATTERS - ELECTRICITY

OPG 2017-2021 Rates. Final arguments were filed in May in the seminal OPG five year rate case. At stake for schools is $77 million of additional charges over the next five years, and $340 million over the next ten.

SEC's Final Argument took an aggressive approach, arguing:

- The forecast capital spending levels for nuclear are overstated, consistent with past over-forecasting.
- The economics of the Pickering extension show that it is not a cost-effective strategy.
- The request to increase OPG's allowed profit level by more than $100 million is not appropriate.
- Continuing high compensation levels should be reduced by more than $400 million.
- Nuclear and common operating costs compare poorly with external benchmarks.
- The amount OPG wants to collect in rates for future nuclear liabilities - $1.8 billion – is about $700 million more than the amount required.
- Hydroelectric rates should increase by 3.9% over five years, rather than 7.7% as proposed.
- The required "smoothing" of nuclear rates should be revised to reduce payments over the next five years by a further $465 million.

These changes, as well as the changes OPG was forced to make during the proceeding (often due to challenges from SEC), would *if accepted* reduce OPG's revenues by at least $2 billion, and reduce the $77 million impact on schools to something under $40 million.

However, the Energy Board will not end up supporting all of the SEC positions and, even if there was a strong decision, there are still substantial increases that have already been approved. It remains virtually certain that the end result will be increases for schools.

There is no official forecast date for the decision. It is not likely to be before November at the earliest.

Two complicating factors may delay this even further. First, the rate smoothing proposal may require a subsequent process, once the details of the approved costs are known. Second, there is a non-trivial likelihood that OPG will appeal if the decision orders significant cutbacks. Thus, new OPG rates are not likely before early 2018.

Hydro One Transmission 2017-2018 Rates. The decision in the Hydro One Transmission case was expected by the end of June, but it has been delayed for reasons that have not been made known. The new expected decision date is the end of August. Schools face an increase in their 2017/18 bill of $3 million.

Hydro One Distribution 2018-2022 Rates. The distribution arm of Hydro One has filed their rate application for the next five years. The proposal would have bills increase, for the 1100 schools in Hydro One's Urban and General Service areas, by about $11 million over that period, or roughly $10,000 per school cumulatively. The percentage increase averages 3.4% per year compounded, and is front-loaded.

For the 50 schools in the three acquired areas – Norfolk, Haldimand, and Woodstock – the proposed increase is $300,000 over two years (2021/22). For the first three years, they are under an existing rate freeze. Then rates increase by an average of 40% per year, with a further increase of 8-10% per year forecast in the following five years.

SEC will be challenging the overall spending levels of Hydro One, including in particular their continuing problems with keeping compensation levels reasonable. We will also be arguing that the increases for the acquired schools are contrary to the Energy Board decisions that allowed those acquisitions.

Current expectation is that the hearing will not be until the new year, with a decision spring/summer 2018.

Hydro One Orillia Acquisition. At the same time as it is asking for big increases for the customers in past acquired areas (see above), Hydro One continues to seek approval for additional acquisitions. SEC has led the customer groups opposing those transactions. We have managed to get directions in past decisions limiting future rate increases, but all past transactions have still been approved.

In the case of the proposed acquisition of Orillia Hydro, SEC argued that the Distribution application, just filed, shows the large increases coming for acquired areas. Our argument was "this is no longer speculative; acquired customers get whacked".

The Energy Board agreed with our concern, and has suspended the Orillia proceeding until it is determined whether the large increase requested for Norfolk, Haldimand and Woodstock will be approved. The implication is that, if those increases are approved, future acquisitions by Hydro One may be denied.

Hydro One has filed a notice that it is appealing the suspension. SEC will continue to fight for this.

Other Distributors. Settlements and decisions for several smaller distribution companies have resulted in minor savings for schools, totalling about **$200,000**. The largest of the remaining applications this year, Thunder Bay, was the subject of a hearing in June. A decision is expected in Q3.

ONGOING MATTERS – NATURAL GAS

Conservation Programs. The EAC, an Energy Board committee on which SEC has a representative, is in the process of finalizing a review of the conservation results for 2015 (a year behind schedule). The likely result will be small reductions in charges to schools for utility incentive payments, probably under **$60,000.**

Upcoming in Q3 is the "mid-term review" for gas conservation programs. The biggest issue in that proceeding is expected to be the interaction between carbon reduction programs (which are obligations under the cap & trade legislation) and conservation programs (which are driven by profit incentives).

Competitive Gas Expansion Applications. The first competitive gas expansion, in South Bruce, pits Union Gas against Alberta's EPCOR, a newcomer to Ontario. As this is a new approach for the Energy Board, it is going slowly. A decision on the new service provider, and the rates to be charged, is now not likely until the new year.

Cap and Trade. The 2017 Cap and Trade compliance plans for Enbridge and Union Gas have still not been approved by the Energy Board. The reasons for the delay are not known. Customer involvement was restricted by limitations on access to information.

The 2018 plans are overdue, but cannot be filed until the decision is released on the 2017 plans. In addition, the impact of the merger of Enbridge and Union Gas is not yet known. It is expected that some or all of their cap & trade activities will be consolidated.

2019-2023 Rates. Enbridge and Union Gas are both expected to file, in November 2017, rate applications for the 2019-2023 period. A live issue in those applications will be the impact of the merger of the two companies on costs and therefore rates. SEC has taken the position during consultations with the utilities and the Energy Board that new cost-based rates cannot be implemented without considering the merger savings.

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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.

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