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School Energy Coalition ("SEC")
Summary Status Report
September 30, 2016

Savings for Ontario School Boards

The last quarter saw the release of the PowerStream five-year rate decision, and several smaller cases. Savings of ***$1.9 million*** *were achieved, now up to total savings of* ***$4.1 million*** *for the year.*

Going forward, SEC is at the forefront of a number of the Energy Board's regulatory reviews of major applications, including the five-year Ontario Power Generation rate case, the merger application of four large GTA utilities, and the transmission rate application of Hydro One. In addition, a number of electricity distributors have started to file their rate applications for 2017 and beyond, including London, Thunder Bay, Fort Erie/Port Colborne, Brantford, and others.

ONGOING MATTERS - ELECTRICITY

PowerStream 2016-2020 Rates. The Energy Board has rendered its decision in the PowerStream 2016-2020 rate application, making significant reductions to the proposed rates. The utility had been seeking an increase, for schools, of 8.2% per year for five years. The approved rate increase averages 4.6% over that period, and the net savings will continue for a further five years. Overall savings to schools are expected to total just under **$1.8 million**.

Basically, PowerStream proposed annual forecasts of cost increases for five years, including a significant expansion of their capital spending. Consistent with the positions taken by SEC, the Energy Board denied PowerStream's proposed cost-based structure. Instead, they were allowed a below inflation increase in 2016, a substantial increase in 2017, and then again below inflation increases for 2018 through 2020.

SEC has an outstanding court challenge of the Energy Board's refusal to consider rate impacts from the merger in this case. That challenge was based on utility cost forecasts that are not consistent with the merger scenario. By not relying on the cost forecasts in the merger-affected years 2018-2020, the Energy Board has made the court application unnecessary, and SEC will withdraw it.

Powerstream/Horizon/Enersource/Brampton "Mega-Merger". The Energy Board has completed its hearing to consider whether this mega-merger of local distribution utilities should be approved, and if so on what terms. Argument is due in October. The merger appears to be a good one, and approval is expected.

The primary issue in the case was the expected cost savings from the merger, estimated to be at least $400-$500 million over the first ten years. Under an existing Energy Board policy, none of those benefits will go to the customers until year 11. SEC, supported by other stakeholder groups, took the position that some of those ten year benefits should be shared with customers, i.e. the policy should not be followed in this case. At stake, for 1000 affected schools, is up to $5 million in shared savings over that period.

A decision is expected in January or February.

OPG 2017-2021 Rates. The lengthy process to review Canada's largest ever rate application has begun. Ontario Power Generation has sought at least $30 billion in rate recovery over the next five years. Future cost overruns, increases, and production shortfalls could increase that by 10% or more under the OPG proposal.

The proceeding will include an extensive review of the proposed 10-year, $12.8 billion project to refurbish the Darlington nuclear reactors. While the Energy Board has limited discretion in this, as the project has been approved by the government, SEC is leading a group of intervenors seeking to ensure not just that the cost is reasonable. Of even greater concern is whether the planning and execution of the project is sufficiently rigorous that, unlike most other global megaprojects of this kind, this project is able to avoid significant cost overruns and delays. Virtually all past OPG megaprojects have been unsuccessful in that regard, sometimes spectacularly so.

OPG's overall proposal is that rates for hydroelectric generation should increase by just under inflation for the next five years, but with any capital improvements to their facilities treated as extras. SEC's position is that capital costs should be included in the formula rate increases, i.e. no add-ons.

For nuclear, OPG proposes a smoothing mechanism to try to deal with the effect of a) the significant increase in costs due to the new spending, and b) the reduction in their nuclear production as they take successive reactors out of service at Darlington to refurbish them. The resulting math is that there would be an increase of 11% per year for ten years. Schools, which in 2016 will pay just over $50 million for OPG generation (included in the global adjustment on the bill), would in year ten be paying $130 million for the same power.

The regulatory process is underway, with a lengthy hearing scheduled to begin at the end of February. SEC is in its normal role coordinating the activities of the other stakeholders. A decision is not expected before June of 2017.

Hydro One Transmission 2017-2018 Rates. Hydro One has filed an application seeking an increase in transmission rates of just under 10% over the next two years. Most of the increase is based on a big jump in proposed capital expenditures. Transmission is about 10% of the typical school's electricity bill.

Since this is the first Hydro One application since its initial public offering, the Energy Board has ordered that the full matter will be considered in an oral hearing, instead of following the normal practice of allowing an opportunity for a settlement. The hearing is expected in November or December, with a decision in the first half of 2017.

Other Electricity Distributors. Decisions or settlements on a few additional electricity distributors came in this quarter, representing a total of about **$150,000** of savings for the affected schools.

ONGOING MATTERS – NATURAL GAS

Union and Enbridge Merger. In early September, the parent companies of Union Gas (Spectra Energy) and Enbridge Gas (Enbridge Inc.) announced their intent to merge their cross-border energy and pipeline conglomerates.

The Energy Board has said that they are reviewing the announcement to determine if their approval is required, in addition to the number of both US and Canadian federal approvals that are already known to be required. The position of the utilities is that they will continue to operate separately, as before, so an Energy Board review is unnecessary.

SEC is monitoring the situation closely to ensure that natural gas customers are protected from harm, and over the medium and long term benefit from potential economics of scale.

Natural Gas Community Expansion. As discussed in the last Status Update, a hearing was held in May to consider proposals by Union Gas and Enbridge to subsidize uneconomic expansions of the gas system into more than 70 communities that don't currently have gas. Customers (including schools) in those communities would benefit from gas service, but all other customers would provide a significant subsidy under the utility proposals. SEC took a moderate position, proposing that the rules for expansions be made more flexible, but that the existing prohibition against large-scale subsidies continue to be respected.

A decision by the Energy Board is expected in the fall.

Cap and Trade. The Board has issued its initial policy regarding the implementation of Cap and Trade as it applies to the gas distributors and their customers. Against the expressed concern of stakeholders and utilities, the Energy Board has determined that the costs of utilities related to cap and trade compliance will not be shown separately on the bill, but will instead be submerged in the delivery line.

The utilities are required to file their initial one year compliance plan later this fall, followed by a 3 year plan next year. SEC will review those plans with a view to assessing the effects of the Climate Change Action Plan on the natural gas sector and gas rates.

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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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