School Energy Coalition ("SEC")
Summary Status Report
December 31, 2023

Savings for Ontario School Boards

*The decision in the five-year Enbridge case was released just before Christmas, embracing fully the Energy Transition imperative. When the preliminary estimate for that case is added to settlements in three smaller electricity cases, this quarter produced **savings for schools of about $5.4 million,** bringing the annual total to $17.7 million in 2023**.***

Meanwhile, Toronto Hydro filed their 2025-2029 rate case, seeking about $15.8 million more from schools over the next five years. This, plus Phases 2 and 3 of the Enbridge case, and the generic cost of capital review, will be the focus of much of SEC's attention in 2024.

ONGOING MATTERS – NATURAL GAS

Enbridge 2024-2028 Rates. The Decision of the Energy Board on Phase 1 of the five-year Enbridge rebasing case was released in late December. As previously reported, the theme of this case was the Energy Transition, i.e. the societal move away from the combustion of fossil fuels.

Many of the more normal aspects of the case, including the five-year operating budget, were settled in a negotiation led by SEC counsel Mark Rubenstein. Key remaining issues – including a +$7 billion capital budget, and customer growth assumptions – were the subject of a lengthy oral hearing in July and August. More than fifteen hundred pages of detailed arguments were filed by parties in September and October.

In a strongly-worded Decision, the Commissioners made clear that Enbridge's planning does not take sufficient account of the risks of declining fossil fuel use, with the result that customers are not being protected. A number of significant changes were ordered to better align the plan with the reality.

Of most importance, perhaps, is an order by the Energy Board that Enbridge reduce its capital spending by $250 million per year, or about 17%. This was coupled with direction that Enbridge must revise its capital planning to ensure the risks that new assets will be stranded or underutilized are properly considered.

The other major change was an order that new connections for residential and small general service customers (including schools) will no longer be subsidized by existing customers. The current rules consider expected revenues from new customers over the next forty years to offset the upfront cost.

In a rare split decision, the Commissioners decided that the subsidy would be removed entirely, effectively requiring new customers to pay the full cost of their connection. This would put gas heating on a par with electrification, leading to a decline in the use of gas by new customers. For those who insisted on gas, the cost to connect could be $5,000 or more ($20,000+ for a school). A rate credit for those customers would make them whole if they remained on the gas system. Existing customers would save the subsidy.

One Commissioner disagreed with this finding, preferring to go half-way in that direction now, and order a general review of connection fees and policies. This was consistent with the SEC position.

To the surprise of some, the Energy Minister immediately issued a press release vowing to overturn this part of the Decision. Details are not yet known.

To reflect increased risk, the Energy Board accepted proposals to increase the profit margin for Enbridge, and accelerate the depreciation of many assets.

Offsetting these upward pressures, the savings arising out of the recent Enbridge/Union Gas merger were built into rates, and $257 million of claims by Enbridge for recoveries arising out of the merger were denied. As a result of all these changes, what was going to be a substantial increase is now little or nothing.

Details of the actual rate impacts will be worked out in the technical process in January and February. SEC's preliminary estimate is that **savings for schools will be at least $5.1 million** (in addition to the $6.7 million previously reported), plus the lower capital spending. The latter cannot be calculated until March.

There are two further phases in this case that will deal with cost allocation, rate harmonization, and other important items. This will play out over most of 2024.

Enbridge Conservation Plan. SEC counsel Jay Shepherd continues to be the customer representative on the Advisory Group that is overseeing the next gas conservation (DSM) plan, due to be filed in 2024.

Enbridge has now done a preliminary estimate for the Advisory Group of costs that could reach $1 billion per year to achieve the goals the Energy Board wants to achieve. SEC has advised that it is beyond the appetite of customers to bear this level of cost increase.

Panhandle Reinforcement. Enbridge is seeking to spend $358 million to reinforce the transmission system in the southwestern corner of the province. The additional capacity is needed for gas generators and for the expanding greenhouse sector.

At issue is whether the customers needing the capacity should pay for it, or whether the bulk of the cost should be shifted to existing customers. SEC has taken the former position. A decision is expected in Q2.

ONGOING MATTERS – ELECTRICITY

Toronto Hydro 2025-2029. At the beginning of December Toronto Hydro completed the filing of its comprehensive five-year rate application. Almost 800 schools will be affected.

Despite a "headline" (i.e. weighted average) rate increase of about 3.8% in 2025, the rate increase proposed for schools and other general service customers is significantly higher in each of the five years. In total, Toronto Hydro is seeking to increase the distribution rates for schools – already among the highest in the province – by about 50% over five years. The extra cost to schools over that period is proposed at $15.8 million, with the 2029 annual charge itself more than $5 million higher than current rates.

All of this is blamed on inflation, modernization, and the higher demand expected from electrification.

SEC has been actively involved in the pre-filing consultations, and will continue to take a leading role throughout 2024.

OPG Compensation Adjustment Application. The Energy Board denied a request by OPG to recover increases in compensation to employees resulting from the court decision on Bill 220. OPG then sought a review of that decision.

On October 24th, the Energy Board accepted the submissions of SEC and others, and denied the review. Savings from this have been reported previously. (Sometimes SEC has to work hard to protect gains already achieved.)

Other 2024 Distributors' Rate Applications. In Q4 rate applications for Synergy North (Thunder Bay and Kenora), Niagara-on-the Lake, and Innisfil were settled, **saving schools an aggregate of $270,000**.

OTHER MATTERS

Cost of Capital. Ontario's regulated utilities have just over $70 billion of net assets. They are assumed to finance 60% of that with debt at market rates, and the other 40% with equity at ~13% pre-tax return (which is essentially their profit). The total of over $5.5 billion per year is included in rates (for schools, $60 million).

The Energy Board plans to hold a generic hearing in 2024 to review the cost of capital for the first time in several years. SEC will be actively involved.

The Energy Transition. The report of the Electrification and Energy Transition Panel was expected in Q4, but has not yet appeared. With many critical policy and regulatory issues tied up in the transition away from fossil fuels, the sector is eagerly (or, in some cases, fearfully) awaiting this report.

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On behalf of SEC

Questions? Contact Brian McKay (sec@oesc-cseo.org) or Mark Rubenstein (mark@shepherdrubenstein.com)

The SEC is registered as the official intervenor at the Ontario Energy Board on behalf of all 72 District School Boards in Ontario. The intervention role aims to protect the financial interests of school boards when natural gas and electricity utilities apply for increases in distribution rates for their energy sources.

The SEC is represented by Jay Shepherd, SEC Legal Counsel, who consults regularly with the OESC Executive Director.

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