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February 9, 2007

VIA COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2006-0266
Regulatory Treatment of Conservation and Demand Management
Activities by Electricity Distributors
Submissions of Energy Probe

Pursuant to the letter of the Board dated January 25, 2007, Energy Probe Research Foundation (Energy Probe) is hereby providing comments in respect of the Board staff discussion paper entitled *Proposed Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond* in 3 hard copies. An electronic copy of this communication in PDF and Word is being forwarded to your attention.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

Interested Parties (By Email)

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EB-2006-0266

Ontario Energy Board

Regulatory Treatment of Conservation and Demand Management Activities by Electricity Distributors

**SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

February 9, 2007

Energy Probe Research Foundation Submission

**Regulatory Treatment of
Conservation and Demand Management Activities
by Electricity Distributors**

EB-2006-0266

Background

On July 13, 2006, the Minister of Energy issued a directive for the Ontario Power Authority (OPA) to organize the delivery and funding of CDM programs through Ontario LDCs. Funds from the Global Adjustment Mechanism were made available in the amount of \$400 million be administered by the OPA spread over three consecutive years. The Ontario Energy Board anticipated that primary responsibility for the funding of CDM activities would move to the OPA by October, 2007. However, the Board realized that successful implementation of the Government's energy conservation objectives would continue to require some level of funding through distribution rates.

With the Ontario Government targeting energy conservation as a prime, ongoing political initiative, LDCs became concerned about the risk to their bottom line caused by CDM programs over which they exercised no control, but which they feel they will be obligated to support.

In a report prepared by John Todd of Elenchus Research Associates Inc. on behalf of the Electricity Distributors Association (EDA) entitled *Designing an Appropriate Lost Revenue Adjustment Mechanism (LRAM) for Electricity CDM Programs in Ontario*, the EDA clearly indicated that its members did not wish to shoulder the burden for reduced fixed cost recovery caused by Conservation Demand Management (CDM) within their territory no matter who is the driver of the program for conservation.

The Board invited written comments by stakeholders on the EDA proposals before providing its plan for addressing these concerns.

By letter dated December 11, 2006, the Board outlined its next steps. To ensure that a long-term regulatory framework will be in place to address any rate-related matters arising from LDC involvement in the delivery of CDM programs funded by the OPA, and/or through distribution rates, a Board staff draft discussion paper entitled *Proposed Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond* was prepared and has been released for comment.

Comments of Energy Probe

Generally, Energy Probe is supportive of the direction the Board staff has chosen to take to address rate-related matters arising from LDCs looking to both the OPA, through its various CDM funding programs, and their own ratepayers for conservation funding. Energy Probe will limit its comments to several areas in which a different approach might be considered.

Revenue Protection

In the coming years, the political attractiveness of espousing green solutions to restrain power consumption growth, will no doubt generate federally funded conservation programs which will not fall under the control of either the OPA or the OEB. To compensate the LDC for federally controlled CDM programs will be more challenging than dealing with the OPA and ratepayer funded programs.

A straight forward and regulatory efficient method of solving the eroding of any LDC revenue as a result of unforecasted CDM results is the removal of fixed costs from volumetric charges. To date, the Board has continued to favour a retrospective solution based on actual results, LRAM, concerned that moving to a fixed distribution charge would raise additional issues, including cost allocation issues. Now that the Cost Allocation Review has been completed, it might be time to reconsider, and explore the more effective solution.

Audit Scope

Energy Probe submits that the scope of any audit should be simple and easily understood. The audit should ensure that the claimed savings are accurate; the audit should provide independent confirmation that all claims are verifiable and programs are cost effective. In addition, the audit should provide suggestions for program improvements if appropriate.

Scope of LDC Activities

Energy Probe submits that the Board should consider the evolution of LDC CDM activities. Just as the gas utilities that have gained some expertise in crafting and running CDM activities and offered their expertise to electricity distributors, it appears logical that some of the more efficient electricity distributors will become interested in providing CDM programs in franchise areas other than their own. This will increase effectiveness in program delivery and the Board may wish to avoid regulatory guidelines which would discourage natural progress in this area.

Respectfully submitted at Toronto, Ontario this 9th day of February, 2007.