EB-2006-0266

Proposed Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond

Green Energy Coalition Comments on OEB Staff Discussion Paper

GEC is comprised of the David Suzuki Foundation, Eneract (Energy Action Council of Toronto), Greenpeace Canada, Sierra Club of Canada and World Wildlife Fund of Canada. All of the GEC's member groups are charitable or non-profit organizations active on environmental and energy policy matters.

In general GEC supports the framework proposed by Board Staff with the following caveats:

Section 4.1.1 - CDM Funding

1. Staff's proposal for rate funding of CDM only where neither OPA nor any other entity is already delivering such an initiative in the LDC service territory is vague and too restrictive. The OPA has shown itself to be slow and ineffective when compared to the leading LDCs. Toronto Hydro was able to reduce its 2006 summer peak while the provincial peak rose as OPA studied matters. The OPA has yet to score a goal. The Board should avoid demoting LDCs to the status of second string players.

2. The vague restrictions Board Staff proposes are likely to discourage LDCs from pursuing cost effective opportunities. For example, if the federal government were to offer an incentive to new homeowners to improve building shells the Board Staff proposal would bar LDCs from offering similar programs. However, it may be highly desirable for an LDC to offer a complimentary program targeting that same end use such as a program aimed at builders or even a program that increases the incentive available to the homeowner or a program that harnesses LDC marketing opportunities to co-promote the efficiency. The restriction proposed by Board Staff will needlessly create unease for LDCs considering such approaches.

3. Board staff recognizes that some programs may be most appropriately funded by LDC rates such as loss reduction efforts. The proposal implicitly assumes that CDM programs are single purpose, either loss reduction or peak reduction. In fact, losses are highest at peak times which suggests that programs can effectively address losses and have broader

system benefits. LDCs should not be discouraged from pursuing such programs due to concern about definitions and choosing the appropriate funding source.

4. It is unclear what the Staff proposal implies in terms of process. Given the inevitable overlap of programs and definitional problems, how will LDCs assure themselves that OPA and no other body is "not already delivering the initiative"? LDCs should not be required to apply to the OPA or demonstrate that they have exhausted OPA options before seeking rate funding for CDM. The OPA has been slow off the mark whereas innovative LDCs have been prepared to move ahead. For example, Toronto Hydro moved swiftly and tried the 10/10 program and peak saver program before the OPA was giving them serious consideration. The Board should be careful not to hobble such creative leading efforts given the urgency of the supply problem facing Ontario.

5. The restriction that in the ordinary course rate funding will only be available for LDC efforts targeting in-franchise customers is appropriate and ensures that no harm will befall LDC customers due to rate funding *per se* (assuming that the programs are well conceived). Rate funding can be a cumbersome and time consuming process for the LDC and will require a higher standard of evidence to obtain regulatory rewards at the back end. Accordingly, it will only be in the interest to LDCs to use the rates funded approach where the OPA fails to offer a reasonable contract-based alternative. Accordingly, there seems little likelihood that retaining access to rate funding (with the one restriction of local delivery) will lead to over-use or abuse. Retaining the option will help reveal, and act as a check on, OPA processes becoming unduly restrictive or otherwise inadequate. There has not been a flood of LDCs applying for additional or supplemental CDM funding and the Board should not restrict options and remove protections where no problem of undue regulatory burden or redundancy has arisen.

Section 4.2.1 - Cost Allocation

1. GEC agrees with Board staff that *in theory* a fully allocated costs approach provides greater assurance that LDCs and their customers as a whole will be adequately compensated by the OPA and other entities for delivering CDM and that ratepayers will not be subsidizing out of franchise delivery. However, we believe that Board staff's proposal may address problems that in practice do not exist and it may create other problems in the process.

2. Board Staff suggests that allowing marginal costing of CDM delivery will give LDCs a competitive advantage over non-LDCs when bidding in OPA CDM procurement processes. This presumes that other entities do not use marginal costing. In fact, it is the norm for businesses to evaluate opportunities on a marginal basis and take advantage of economies of scale and scope. It is not clear if competitors allocate overheads to a marginal project to the extent that a regulatory fully allocated approach requires. Requiring the use of fully allocated costing may swing the pendulum too far and put LDCs at an inappropriate competitive disadvantage.

3. In practice, LDC delivery of programs is likely to be largely restricted to situations where the LDC-customer relationship offers advantages which make the LDC the logical and most practical delivery entity. Thus concern for private sector competitors may be inapplicable.

4. Most LDCs will concentrate on delivery of CDM within their franchise area. Accordingly, there will seldom be a significant risk of inappropriate cross-subsidy between ratepayers due to marginal costing. We suggest that fully allocated costing only be required where ex-franchise delivery is contemplated.

5. Allowing the use of a marginal cost approach will better reveal the true marginal economics of CDM and allow more programs to go forward.

6. Allowing the use of marginal cost will avoid the need to introduce the cumbersome process of full allocation.

7. GEC recommends that LDCs be at liberty to negotiate contracts with the OPA on a marginal cost basis or otherwise, and only be required to use a fully allocated approach (to protect ratepayers against any risk of inappropriate cross-subsidy) where ex-franchise delivery is contemplated.

All of which is respectfully submitted this 6th day of February, 2007.

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