

February 8, 2007

BY COURIER (3 COPIES) AND EMAIL

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Ontario Energy Board
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Dear Ms. Walli:

**Re: Pollution Probe – Written Submissions on Discussion Paper
EB-2006-0266 – Regulatory Treatment of Conservation and Demand
Management Activities by Electricity Distributors**

In accordance with the Board's letter of January 25, 2007, we are writing to provide Pollution Probe's written submissions with respect to the Board Staff Discussion Paper of January 25, 2007 entitled *Proposed Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*.

In general, Pollution Probe supports most of the Board Staff's proposals. However, Pollution Probe strongly opposes Board Staff's proposals with respect to:

- a) a dual funding model for conservation and demand management (CDM); and
- b) fully allocated costing of CDM programmes.

Each of these issues will be discussed in turn.

A. Dual Funding Model for CDM¹

Pollution Probe submits that Board Staff's proposal to make municipal electric utilities the OPA's subservient and junior CDM partners is contrary to the public interest since the OPA has neither the will nor the ability to aggressively and cost-effectively promote energy conservation. Pollution Probe submits that the Board should instead:

1. Encourage the OPA to expeditiously fund aggressive and cost-effective municipal electric utility CDM programmes; and
2. Encourage Ontario's municipal electric utilities to seek OEB-approval for cost-effective CDM programmes that the OPA has not funded on an expeditious basis.

¹ See *Discussion Paper*, section 4.1.1 at pages 6-8.

Board Staff proposes in the Discussion Paper a dual funding model for funding CDM activities. Board Staff's proposal is based on the implicit assumption that Ontario's municipal electric utilities (e.g. Toronto Hydro) should be the Ontario Power Authority's (OPA's) very junior partners in the design and delivery of CDM programmes. Specifically, Board Staff is proposing a dual funding model which:²

implicitly encourages the LDCs [local distribution companies] to seek funding from the OPA, and to rely on funding through distribution rates where OPA funding is not available or where funding through distribution rates is more appropriate. To ensure effective use of OPA funding and to minimize duplication, there should be some restrictions as to the types of programs for which LDCs may apply to the Board for recovery through rates. Funding through distribution rates should be restricted generally to initiatives targeted to consumers within the LDC's licensed service area, and to initiatives that neither the OPA nor any other entity is already delivering within the LDC's service area. Board staff believes that these criteria are appropriate, in that they recognize the OPA's primary responsibility for funding CDM programs in the province, and encourages participation in the OPA's CDM processes, while providing CDM funding continuity and preventing the cross-subsidization of one LDC's ratepayers by the ratepayers of another. [emphasis in original]

This proposal implicitly assumes that the OPA has the will and ability to aggressively and cost-effectively promote energy conservation. However, Pollution Probe submits that this assumption is erroneous based on a proper examination of the OPA's documents and past activities. For the purposes of this discussion, Toronto Hydro is used as a municipal electric utility comparator.

First, the organizations are currently working towards very different projections. The OPA's draft Integrated Power System Plan (IPSP) projects a 21% increase in Ontario's peak day demand by 2025. On the other hand, Toronto Hydro's goal is to reduce its peak day demand by 5% (250 MW) by 2007. These are marked differences in the major goals that each organization is attempting to accomplish and focus on.

Past performance in 2006 also shows a marked difference in the achievement of reduced energy consumption. During the summer of 2006, Ontario's peak day demand *grew by 4%* compared to the previous year, which Pollution Probe submits is a reflection of the OPA's failure to aggressively promote demand response. In comparison, Toronto Hydro's peak day demand *fell by 5 MW*.

Programme implementation in 2006 also shows marked differences in the focus and expertise of the organizations with respect to energy conservation programmes. For example, Toronto Hydro introduced its innovative peaksaver and 10/10 programmes, but the OPA did not implement equivalent programmes for the rest of the province. Since both of these Toronto Hydro programmes were very successful, Premier McGuinty *directed* the OPA to roll out these programmes on a province-wide basis during the

² Discussion Paper, pages 7-8.

summer of 2007. In comparison, Toronto Hydro simply implemented the programmes on its own initiative.

Finally, the OPA's focus on future expenditures is *not* on CDM. According to the OPA's draft IPSP, it is proposing expenditures to 2025 of \$5.73 billion for CDM and \$68.18 billion for electricity supply. In other words, for every \$1 on CDM that the OPA plans to spend, it plans to spend \$12 on electricity supply. Pollution Probe submits that this dollar disparity reflects the priority that the OPA will put on CDM.

Pollution Probe thus submits that it would not be in the public interest to make municipal electric utilities the OPA's subservient and junior CDM partners as illustrated by the different focuses and performance. Pollution Probe accordingly submits that the Board should:

1. Encourage the OPA to expeditiously fund aggressive and cost-effective municipal electric utility CDM programmes; and
2. Encourage Ontario's municipal electric utilities to seek OEB-approval for cost-effective CDM programmes that the OPA has not funded on an expeditious basis.

With respect to Board Staff's concern that Ontario's municipal electric utilities might seek OEB-approval for CDM programmes that are duplicative, as opposed to complementary, of OPA programmes, Pollution Probe submits that this concern is unfounded. The assumed concern ignores the fact that Ontario's municipal electric utilities are directly accountable, both financially and otherwise, to local municipal councils who are elected by the relevant ratepayers, unlike some arms-length provincial agencies that do not have similar direct and ongoing oversight. As a result, they will not seek to spend their ratepayers' dollars in a wasteful or duplicative fashion due to direct ongoing accountability.

B. CDM Cost Allocation³

Pollution Probe submits that Board Staff's supposed reasons for preferring fully allocated costing over marginal costing are without merit when one properly examines the greater context. In addition, marginal costing would help further the Government's energy conservation goals as noted by Board Staff.

Board Staff recommends that the municipal electric utilities' CDM programmes should be costed on a fully allocated cost basis. This recommendation is despite Board Staff's acknowledgement that a marginal cost approach "effectively facilitates broader reach of the OPA's CDM funding, which would help to further the Government's energy conservation goals."⁴

According to Board Staff, the fully allocated cost approach is superior for three reasons:

³ See *Discussion Paper*, section 4.2.1, pages 13-15.

⁴ See page 13.

1. Marginal costing would provide the municipal electric utilities with a competitive advantage over non-utilities when competing in the OPA's procurement processes;
2. Marginal costing would give CDM an unfair advantage over supply-side options in the OPA's Integrated Power System Planning process; and
3. Marginal costing would lead to cross-subsidization.

In addition to the fact that marginal costing would help further the Government's energy conservation goals, Pollution Probe submits that each of the Board Staff's supposed reasons for the superiority of fully allocated costing over marginal costing are without merit when one properly looks at the greater context. Each of these reasons is examined in turn.

First, Pollution Probe submits that, according to economic theory and Ontario's experience, firms in competitive marketplaces make their price bids on a marginal cost basis. For example, OPG and Bruce Power bid their nuclear generation into the IESO's spot market on a marginal, not a fully-allocated, cost basis. The marginal cost is the *true additional cost* in these situations, and it is an entrenched part of economic theory and how the market functions in such situations to ensure cost-effective resource allocation.⁵

Second, Pollution Probe submits that, according to well accepted least-cost planning principles, the OPA's Integrated Power System Plan should compare all CDM *and* supply-side options on a marginal cost basis. Comparisons need to use this basis in order to properly analyze the *true additional costs* associated with implementing potential options, and there would accordingly be no unfair advantage.

Third, Pollution Probe submits that, as long as a municipal utility recovers the marginal costs of its CDM programmes, its CDM costs will not cause its distribution rates to rise. Pollution Probe further submits that the resulting increased CDM spending will benefit all electricity consumers by reducing the need for new, high-cost natural gas or nuclear generation. The result is that reductions in the demand for new generation will lower Ontario's average cost of electricity generation since the marginal cost of new supply is much higher than the cost of our existing heritage water power resources.

C. Costs

Pollution Probe respectfully requests reimbursement for 100% of its reasonably incurred costs for participating in this proceeding and EB-2006-0267, which was subsumed into this proceeding, and cost claims will be filed in due course. As the Board is aware,

⁵ I.e. if production can be increased with limited additional resources, the marginal cost will be small; however, if production can only be increased with significant additional resources (e.g. administrative costs for a non-LDC), the marginal cost will be high. In either situation, the *market* determines whether the option is ultimately viable by comparing this *true* cost to the price the market is willing to bear, which ultimately results in cost-effective resource allocation.

Pollution Probe is a registered charity that has no pecuniary interest in the outcome of this proceeding, and its membership includes thousands of electricity consumers.

Yours truly,

A handwritten signature in blue ink, appearing to read 'B. Alexander', with a long, sweeping flourish extending to the right.

Basil Alexander

BA/ba