

J. MARK RODGER  
direct tel.: 416-367-6190  
direct fax: 416-361-7088  
e-mail: mrodger@blgcanada.com

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**BY HAND AND FACSIMILE**

Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 26<sup>th</sup> Floor  
Toronto, Ontario  
M4P 1E4

Attention: Mr. Paul B. Pudge  
Assistant Board Secretary

Dear Sirs:

**Re: Ontario Energy Board ("OEB") File No. RP-2003-0144 – OEB  
Consultation Process in respect of the Minister's Directive on Demand  
Side Management ("DSM") and Demand Response ("DR")**

**SUBMISSION OF THE ASSOCIATION OF MAJOR POWER  
CONSUMERS IN ONTARIO ON OEB STAFF PAPER**

AMPCO provides the following comments on the report of Board staff to the Ontario Energy Board containing its recommendations for the delivery of DSM and DR activities in Ontario's energy sectors. The following comments are intended to reinforce AMPCO's comments submitted to Board staff as a member of the Advisory Group, both verbally and in written form.

**Demand Side Management ("DSM") and Demand Response ("DR") Measures**

*Overall Feedback:*

In general, AMPCO members believe that industrial DSM programs should not be developed, delivered or funded through an OEB regulated mechanism. For the most part, industrial customers, responding to market signals, undertake DSM and energy efficiency

programs outside of this structure and do not benefit from utility programs that target the residential/small commercial end user. They therefore should not be burdened with the proposed consumption charge, levied on all customers. Should such a levy be introduced, two further principles should be applied, namely: funding should be allocated to customer segments in proportion to that sector's funding relative to total funding; and customers who can demonstrate that they could design and deliver self-directed programs can apply for levy exemption. Finally, AMPCO submits that, to the extent that programs are developed that require settlement in the wholesale market, such programs are more appropriately developed and funded within the IMO administered marketplace, rather than under the auspices of utilities, with OEB regulatory oversight.

Having said this, the AMPCO members believe that there are obvious opportunities to exploit amongst the wholesale market participants in terms of achieving significant demand reductions through Energy Efficiency and DSM initiatives. In these cases, it is postulated that the reduction in demand achievable from programs targeted at wholesale market participants is large relative to the other market segments. As such, it may be prudent for Ontario to pursue such demand reductions in a targeted way. To the extent that funding is therefore made available to industrial segment customers, these funds could be allocated to parties who are willing to undertake such programs, with results subject to independent audit and financing contingent on such auditable results. This same principle should be applied to any party receiving funding.

AMPCO's main feedback, as discussed further below, focuses on the need to:

- Classify programs into those that have generalized benefits and those that benefit specific segments or individuals in the market and to tailor associated charges appropriately.
- Develop rigorous measures that will ensure that all programs have benefits that are greater than costs. AMPCO continues to be concerned with the potential for large expenditures on DSM projects with little or no ability to assess effectiveness.

- Establish an effective oversight body with processes and controls to structure program development funding so as, to the greatest extent possible, allocate the costs of such programs to the beneficiaries of such programs.
- Minimize the costs of such centralized oversight by, for example, combining this function with other functions assigned to existing bodies or new agencies established to conduct supply related activities.

*Assigning Costs to Beneficiaries:*

The Report begins with a description of a fully functioning market in which market participants are faced with market-based prices and make independent decisions based upon these prices and individual preferences. The report states that this is a longer run objective since this outcome is not feasible in the short term, largely because a mix of market-based and regulated prices characterizes the market. This follows from the relative immaturity of the market. AMPCO believes that it is helpful to begin the analysis with this model in that it describes the objective that DSM/DR measures are attempting to realize in an imperfect setting.

The competitive market just described assumes that the benefits created by the decisions of an individual can be appropriated by that individual and are not dispersed to other market participants. While this is not likely to be universally true, it is a useful point of departure from which exceptions can be identified and resolved. If it were true there would be little point in introducing DSM/DR measures since market participants would be eager to pursue available benefits without the introduction of incentives to do so. Moreover, those realizing the benefits would bear the costs associated with the pursuit of these benefits.

The danger in introducing programs of the sort envisaged in the Report is that this tight relationship between costs and benefits becomes blurred and cross subsidizations occur which actually distort behaviour from the competitive objective. Both theory and actual practice suggest this danger is difficult to control.

In particular, the Report recommends that electricity DSM and some retail DR initiatives should be funded by all electricity consumers through a transparent, non-bypassable consumption charge (kWh), levied on all customers including self-generators. This presumes that all consumers benefit to the same extent from the programs introduced. This is unlikely to be appropriate for all programs. It is entirely possible that measures introduced could result in benefits that can be captured by individual consumers or groups of consumers. For example, if consumers do not implement conservation measures because they are unaware of the benefits, because they cannot meet the capital costs involved, or because there are significant economies of scale in the implementation of such measures, DSM programs might be effective in overcoming this reluctance. However, the benefits may be entirely captured by these consumers individually or as a group, implying that charging their costs to others would result in cross subsidization.

Consequently, greater attention than has been described in the Report is required to the classification of programs into those that have generalized benefits and those that benefit specific segments or individuals in the market and to the tailoring of associated charges appropriately. Should a non-bypassable consumption charge be levied on all customers then funding should be allocated proportionately to those sectors that contributed. The Central Agency proposed will have to develop rigorous measures that will ensure that all programs have benefits that are greater than costs and that there is a matching of costs and benefits. AMPCO continues to be concerned with the potential for large expenditures on DSM projects with little or no ability to assess effectiveness. Programs must be cost effective and results verifiable, with funding contingent on audited results.

AMPCO notes that the OEB Staff Paper distinguishes DR measures from DSM in that they are intended not necessarily to decrease demand, but rather to shift demand in a manner that reduces peak load i.e. improves the overall system load factor. Because DR measures lower demand in high demand-high price periods, DR programs have their greatest effect on price and system reliability. The price impact creates generalized benefits, although these benefits accrue to a greater extent to those with consumption concentrated in high price periods.

As discussed above, in assigning the costs for DR programs, attention must be given to the identification of those who benefit the most and charges developed appropriately. In its discussion of potential concerns with respect to DR in wholesale markets the Report deals only with speculating on issues that might arise after the DR program ends. The real issues are identifying the manner in which the greatest “response” can be achieved at the minimum cost, and ensuring an appropriate matching of costs and benefits. AMPCO supports the OEB Staff’s recommendation for the expedited development of a flexible economic demand response program, given the benefits of DR in terms of both cost and reliability, and the relative response that wholesale market participants can contribute. The IMO Pilot Economic Demand Response program needs to be modified to maximize participation by wholesale market participants.

Yours very truly,

**BORDEN LADNER GERVAIS LLP**

J. Mark Rodger

copy to: Ms. MaryEllen Richardson  
President, AMPCO

All Parties

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