



**Canadian
Manufacturers &
Exporters**

Ontario Division

**Comments on Staff Report
to the Ontario Energy Board**

**Demand-Side Management and Demand Response
in the Ontario Energy Sectors.
RP-2003-0144**

February 6, 2004

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1.0 Introduction

The Ontario Energy Board consulted stakeholders on options for the delivery of demand-side management (DSM) and demand response (DR) activities within the electricity sector, in response to a directive from the Minister of Energy on June 18, 2003.

The Board expanded the scope of the review to include the role of gas distribution companies in DSM and released a draft DSM / DR discussion paper.

An Advisory Group was selected from the Listed Stakeholders to represent identifiable constituencies, including consumers, special interest groups, trade associations, generators, transmitters, electricity and gas distributors, wholesalers, retailers, and technology and energy service providers.

The “Report of the Advisory Group on Demand-Side Management and Demand Response in Ontario in Response to the Minister’s Directive to the Ontario Energy Board” details several alternatives. There was no consensus.

The Board asked its staff to prepare a Report for the Board and requested stakeholder comments on that report before deciding on its own recommendations to the Minister.

2.0 CME’s General Concerns

CME urges the Board to be cautious with respect to the staff’s recommendations.

The staff report:

1. Is not an analytical review of stakeholder oral presentations, written representations, and the Advisory Group’s report. At best, it is a poorly argued and incomplete presentation of its own opinions.
2. Contains no discussion of “what works and what does not in DSM / DR programs”.
3. Contains no persuasive reasons why the recommendations are the appropriate policy basis for Ontario in DSM / DR.
4. Contains no mention of monitoring and evaluating DSM / DR programs, or who should be responsible for these functions.

3.0 CME’s Comments on Staff Recommendations

CME’s comments on the seven recommendations contained in the staff report are set out below.

3.1 Recommendation #1 – Hybrid Framework

A hybrid framework using both market-based and public-policy approaches should deliver DSM and DR activities in Ontario’s energy markets.

CME Comments

CME is concerned that there is no analytical basis or persuasive rationale for a hybrid framework.

Further, there is no discussion as to when market-based policy approaches would be more appropriate than public-policy approaches and vice versa.

There is no clear preference or rationale for either market pricing or regulation. The report comes down somewhere in between in an unhelpful way:

Pricing to consumers also has an impact on a DSM/DR framework. In a fully functioning competitive market, market-based pricing tends to lead to efficient levels of demand. ... Under regulated pricing, however, moving to efficient levels of demand depends on public policy and regulatory oversight.

3.2 Recommendation #2 – Policy Framework

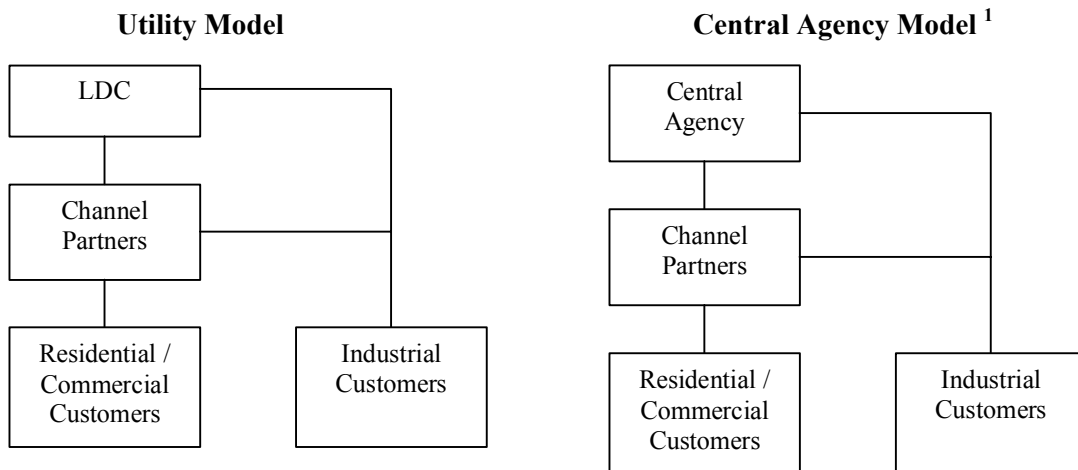
A Central Agency should be responsible for the design and delivery of DSM and DR activities in Ontario’s energy sectors.

The Ministry, the IMO, the Board and the Central Agency should work together to coordinate DSM and DR activities

- *The Ministry would be responsible for over-arching objectives for DSM and DR*
- *Where necessary, the IMO would make changes in the Market Rules to implement DR, and the Board would change regulatory instruments to facilitate DSM and DR activity. Both organizations would continue to carry out their legislated objectives.*

CME Comments

The staff report rejects the OEB – Utility Model without providing any reason. See schematics.



A well-reasoned case is needed for why a Central Agency model is better than a Utility model. This case should spell out the pros and cons of the central agency model vs. the utility model for both electricity and natural gas.

The staff report provides little or no guidance with respect to:

1. How DSM volumetric targets and the related budget would get set. This is of concern particularly when linked to the recommendation for a dedicated tax (recommendation #4). As well, CME would be concerned with any program that

¹ The Agency model could take a variety of forms. See 3.3.

does not focus on the cost effectiveness of DSM programs in terms of cents per cubic meter and cents per kWh.

2. The staff report makes reference to LRAM, SSM and DSMVA but draws no definitive conclusions or recommendations. It speaks vaguely in terms of “this does not mean LRAM or SSM, but an adjustment to forecasted throughput for recovery of revenue requirement.”
3. How “the Ministry, the IMO, the Board and the Central Agency should work together to coordinate DSM and DR activities”. The description provided sounds more like a hoped-for-outcome than a likely reality.

CME is indifferent to either a Central Agency or Utility model, provided that:

- a. There is no LRAM.
- b. If a DSMVA is in place, along with an incentive mechanism (e.g., SSM), the volumetric target is adjusted proportionate to the additional DSMVA budget used.
- c. If an incentive mechanism (e.g., SSM) is in place, the incentive is not based on a TRC calculation.
- d. There is no dedicated charge or tax on either electricity or natural gas consumers (See 3.4)

The staff report identifies four players that should be involved in DSM/DR in Ontario – the Ministry, the IMO, the Central Agency and the OEB – but assigns no responsibility or accountability to anyone other than to the Central Agency for design and delivery.

Who would be responsible:

1. For the cost effectiveness of programs?
2. How will accountability be assured?
3. Monitoring and evaluation?

Clearly, this is a major deficiency in the staff report.

3.3 Recommendation #3 – The Role of the Transmitter and Distributor

Transmitters and distributors should be allowed to act as delivery agents of DSM / DR activities for least-cost planning and/or optimizing their distribution systems. This might include investing in DSM / DR-enabling technologies such as meters, controllers, communications, and / or gateway services. In doing so, distributors should comply with Central Agency protocols and compete equally with private sector players, without provision for DSM variance account, lost revenue adjustment mechanism, or shared savings mechanism.

The Board should put in place regulatory mechanisms to induce gas distributors, electricity transmitters and electricity distributors to reduce distribution system losses.

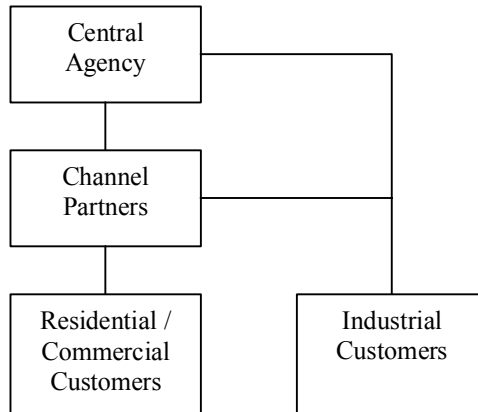
CME Comments

The staff report recommends that transmitters and distributors act as delivery agents but provides no guidance or understanding of the relationship of the Central Agency to the delivery agents, channel partners, and different types of gas users.

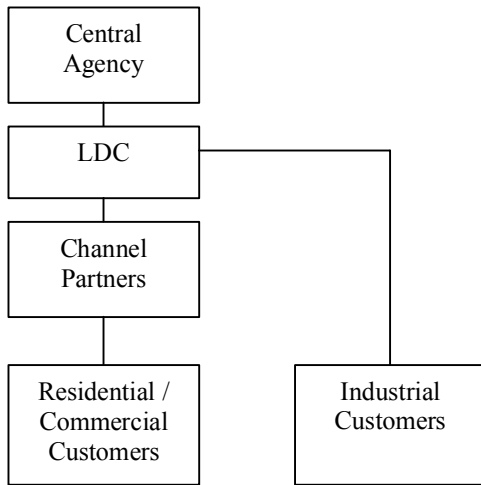
The report does not describe which alternative it prefers or what relationship would exist between the Central Agency, the delivery agent and channel partners, etc. Such an understanding is important before the Board makes recommendations to the Minister.

The schematics below illustrate three types of relationships.

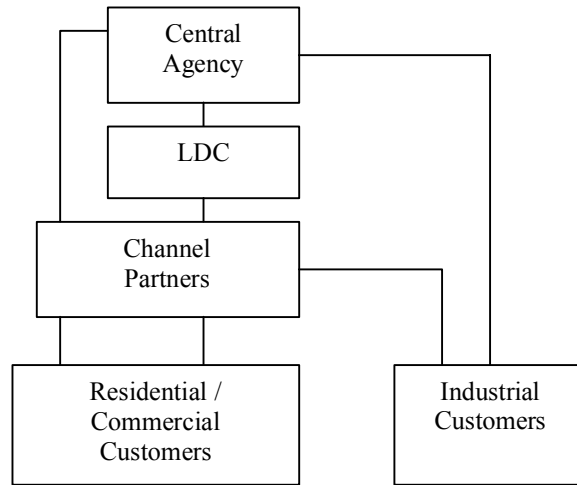
Central Agency Model #1 - Alternative #1



Central Agency Model - Alternative #2



Central Agency Model - Alternative #3



CME strongly agrees with the recommendation that distributors compete equally with private sector players, without provision for DSM variance account, lost revenue adjustment mechanism, or shared savings mechanism.

CME agrees with the staff recommendation that gas distributors and electricity transmitters and electricity distributors should be induced to reduce distribution system losses.

Indeed, CME believes that the current policy of attributing the cost of all unaccounted for gas to the account of ratepayers is wrong and provides no incentive for distributors to take steps to reduce such losses.

3.4 Recommendation #4 – Symmetry between Electricity and Gas

The recommended framework should replace the current gas framework within three years.

CME Comments

Since CME finds the recommended framework deficient, it is not able to comment on whether a 3-year phase in period is appropriate.

3.5 Recommendation #5 – Conservation Funding

Electricity DSM and some retail DR activities should be funded by all electricity consumers through a transparent, non-bypassable consumption charge (kWh). Gas DSM activities should also be funded by a transparent consumption charge (m3).

- *The charge would be levied on all consumers, including self-generators in electricity.*
- *The Central Agency should be responsible for setting the rate applied to electricity and gas consumption annually, subject to review by a regulatory body.*

DSM funding should cover DSM / DR program administration and consumer incentives. It would not include funding for lost revenue adjustment (LRAM), variance accounts (DSMVA) or shared savings mechanisms (SSM).

CME Comments

The staff report recommends a dedicated charge – a tax by another name.

CME strongly opposes dedicated charges and believes that DSM / DR costs, if they are incurred, should compete with other governmental programs and be paid for from the Consolidated Revenue Fund.

A dedicated tax or charge on electricity and / or natural gas consumption would perpetuate a DSM / DR bureaucracy, whether within a utility or a Central Agency.

3.6 Recommendation #6 – Demand Response in the IMO Administered Markets

In consultation with stakeholders, the IMO should design and develop economic DR to be put in place for 3-5 years as a transitional measure.

Further, the IMO should revise the Market Rules to facilitate load aggregation (e.g., statistical measurement, metering, and settlement requirements).

No player should be mandated to play the role of load aggregator.

CME Comments

CME agrees with this recommendation, assuming that there is such a thing as an economic DR, which the 3-5 year timeline tends to assume.

3.7 Recommendation #7 – Demand Response in the Retail Market

The Board is currently working on interim and long-term Standard Supply Service (SSS) pricing strategies. These could include peak and off-peak time-differentiated SSS prices altered seasonally.

Until May 1, 2006, time-differentiated and seasonally adjusted commodity prices could apply to designated consumers

The Central Agency should consider pilots and demonstration projects for emerging and innovative technologies that enable retail load management; e.g., use of metering technologies, controllers, communications, and/or gateway services.

CME Comments

The Staff has not made a recommendation. At best, it is a statement of what they believe is happening.

CME favours market based prices, not regulated electricity prices.

Again, the staff report references a role for a Central Agency with respect to pilot and demonstration projects without providing any persuasive analysis or rationale as to why a Central Agency is the best option or why pilot demonstration projects would be worthwhile.

3.8 Recommendation #8 – Coordinated Communications

The agencies involved in conservation in Ontario (the government, the Central Agency, The IMO, and the Board), should coordinate consumer education plans to ensure consistent messages and avoid duplication.

To help consumers understand their energy choices and the consequences of those choices in the Ontario market, the Board should design, develop and / or deliver information to consumers related to energy conservation, energy efficiency, load management and cleaner sources of energy.

CME Comments

Again, the staff report is deficient in providing any rationale for a Central Agency or in providing any understanding of what would be involved in coordinating “consumer education plans to ensure messages and avoid duplication”. Nice sounding, but meaningless words.