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Mr. Paul Pudge
Ontario Energy Board
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By Courier; By E-Mail

Dear Mr. Pudge:

Re: Board File No.: RP-2003-0144
Consultation on Demand Side Management and Demand Response in the Ontario Energy Sector

It has become abundantly clear to all participants in today's energy market, that the Province cannot meet the demand for power through supply options alone. This message was loud and clear from the IMO in their 10 year forecast, as well as from the Electricity Conservation and Supply Task Force recommendations and was further supported by the Energy Board Consultation on the issue of DSM. The Staff Report to the Board on DSM contains many good suggestions, and as an integral part of the energy sector, we have no doubt that many of the recommendations will be supported by the LDC's.

COLLUS Power Corp. has been an active supporter of both Demand Side Management and Demand Response for many years, and we are encouraged that the Board is taking steps today to fill the gap that was created at the time of "market opening". In the early 90's, we were actively involved in the delivery of DSM initiatives to our customers. These initiatives included Energy Efficiency Seminars, Home Energy Audits, education on Energy Efficiency and Electrical Safety in schools, participation at local fairs, and general support to the local vendors of energy efficiency products and services. Many of these activities were carried out jointly with other organizations such as the "Green Communities Initiative" which promoted the conservation message for electricity, gas and water. The delivery of these messages through jointly partnered activities allowed for lower overall administrative costs and a wider penetration of the conservation message than any one partner could have hoped for.

Our Electric Utility was also very heavily involved in a Demand Response program under the title "Hot Water Dollars". This program involved the use of intelligent, remotely programmable, and remotely operated switches used to control water heaters, pool pumps, and could even be used for air conditioning and heating loads. These units were tied to our distribution SCADA monitoring system through which an automated signal would be sent at various times when load reduction was required by either Ontario Hydro due to supply issues, or for the benefit of our rate payers in an effort to reduce their overall bills. The Demand Response program was so successful that we expanded the opportunity for other Utilities to participate thereby sharing the cost of the infrastructure and required staff, allowing more of the savings to reach our customers. This program alone provided over 5 Megawatts of load reduction prior to the opening of the new market.

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We support the staff report recommendation that a Central Agency should be established in the Province with responsibility for DSM. A Central Agency can help ensure the delivery of a common message across the Province, and gain efficiencies in program development where wide reaching programs can gain from economies of scale. The Central Agency could also be given the mandate to work with Manufacturers to improve their products and technology (windows, appliances, etc.) with respect to Energy Efficiency. Another important role for the Central Agency would be to encourage changes in building codes and other legislation surrounding the use of energy.

We are concerned however, that the report tends to overlook the ability of the LDC sector in delivering DSM and DR programs. It seems to suggest that Distributors would only be involved in the delivery of these activities as part of a least-cost planning or system optimization approach. At COLLUS we sincerely believe that without the active participation of every available delivery agent, the aggressive targets required to meet the supply/demand imbalance forecast over the next 10 years will not be attainable. The private sector will undoubtedly get involved in DSM activities where there is an acceptable pay-back on their investment. Once the cream has been skimmed, the private industry will likely move on to other opportunities. This is evidenced by a review of the various Energy Efficiency programs delivered by the Electric Utilities in the 1990's. Once the incentives paid for by the industry were no longer available, many of the programs died a quiet death even though there was a real customer cost-benefit to selling the product or service.

We are also concerned that the paper suggests that there should be no cost recovery or revenue adjustment for LDC's to compensate the LDC's in response to reduced revenues related to the uptake of DSM across the Province. The rates currently levied by LDC's are based on legacy requirements from prior to market opening. At the time, it was established that there was a set revenue requirement to ensure a continued reliable delivery system across the province. This revenue requirement was then collected through a combination of fixed and variable rate mechanisms which returned the required amount based on historic consumption in 1999. To not allow for an adjustment in rates due to a change in volume of energy sales would be a severe blow to the ongoing reliability of the delivery infrastructure across the Province. This is not to say that there are no other means of recovering some of the losses, however as a principal to ignore the potential impact on the continued viability of LDC's would be disastrous.

The Conservation and Supply Task Force also suggested that small Distributed Generation projects should be included when reviewing DSM activities. The Staff Report to the Board seems to have overlooked the real benefits that Distributed Generation can offer in our current Demand/Supply dilemma. There is significant discussion at the OEB on how to help stimulate investment in Distributed Generation across the Province. We suggest that one option would be to allow the LDC's to incorporate support for Distributed Generation through the use of some of the funding available from the DSM budgets. Distributed Generation is a relatively new concept in Ontario (at least in terms of the penetration we hope to achieve). The ultimate goal for the consumers in the Province is to ensure a continued reliable supply of power, and in this light, Distributed Generation technologies can be a real contributor to the solution we all crave, given the proper support and funding.

On a final note, we would urge the OEB to carefully review the impacts that Demand Response through initiatives like our retired "Hot Water Dollars" program can bring to the Demand/Supply mix. The proposed IMO structure of payments for Demand Response is far from a sufficient incentive for re-activating or establishing new systems. The IMO suggests that customers will engage themselves in Demand Response programs based on the ability to bid into the market and get paid \$180/MWh for shedding load. Assume an LDC (or private agency) has 2300 customers involved in a Demand Response program, and can shed 2 MW's of load for two hours. The IMO would pay them (under the OEB example) 2X \$180 for each hour. That results in a payment of \$720 to the entity controlling the loads. This works out to an average of 31 cents per customer

in that particular month assuming that the entity took no money for themselves to purchase and install the equipment, operate the program, and place the bids with the IMO. If we truly wish to see investment and re-activation of these types of programs, we need to fully recognize the impacts these systems can have regarding security of supply and ensure that there is sufficient funding available to the organizations operating them as well as for the participating consumers. Demand Response programs such as these should also be established on a long term plan and not limited to a 3 to 5 year window as suggested in the Staff Report. Firstly, the entities establishing the programs need assurances that their costs will be recovered, and secondly we cannot hope to achieve the type of culture change we require with the consumers if we continue to change the messages we send as an industry. Demand response primarily operates for only a few hours per month to help manage the system peaks. These short duration system peaks are not an anomaly that will disappear over time. They exist in virtually every single electricity market around the world, and will continue to exist long after our next restructuring.

Thank you for the opportunity to provide our comments on the Staff Report. Should you or your staff have any questions related to our comments, please contact either me, or Darius Vaiciunas from our office and we would be pleased to clarify any concerns.

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Respectfully submitted,
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