

Submission to
The
Ontario Energy Board
Staff Report to the Board on Demand-Side Management
And Demand Response

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This submission is in response to the Ontario Energy Board's (Board) letter of January 23, 2004, inviting stakeholders to make comments on the Staff Report to the Board on Demand-Side Management and Demand Response.

Chatham-Kent Hydro (C-K Hydro) supports the Minister of Energy and the Board initiative to develop Demand Side Management (DSM) and Demand Response (DR) programs that will benefit all electricity users in Ontario.

C-K Hydro recognizes that if expensive imports are required to meet the demand for electricity, all Ontarians will have to pay higher commodity prices that will negatively affect the economic viability of The Municipality of Chatham-Kent. Ultimately, if electricity commodity prices are not held to the lowest price possible, Ontario will have difficulty competing economically on a North American or Global basis.

C-K Hydro commends the Board on its initiative to provide an opportunity for stakeholders to provide comments on the DSM/DR report before it goes to the Board for approval. C-K Hydro supports the DR initiatives. C-K Hydro comments are primarily focused on the level of involvement of the Local Distribution Company (LDC) in the DSM program and the financial implications to the LDC.

Involvement of LDC

The proposed Central Agency model appears to essentially promote the use of private, profit-orientated sector players as the key program developers and delivery agents for DSM initiatives. The reliance on private sector players is a dramatic change from previous provincial-wide electric energy conservation programs when publicly owned Ontario Hydro was the program developer and publicly owned hydro Public Utility Commissions (PUCs) were the primary delivery agents.

In previous energy conservation programs delivered by community based LDCs, customers had a high level of trust with their LDC representatives. Customers knew that LDCs were not in the energy conservation program to make a profit, but to help the customer from a service point of view. In many cases, the customer would rely on the LDC to recommend the best programs to participate in and a list of potential private sector providers. LDCs have continued to maintain and build the customer trust as LDCs have worked closely with customers through the deregulation of the electricity market. Most customers still rely on their LDC to help them in all their electric energy needs.

The DSM report stresses the need for a strong Central Agency to deliver programs to all Ontarians with what appears to be a very limited involvement of local community based LDCs. C-K Hydro understands the need for a central body to design, coordinate and measure program performance, but has difficulty understanding the limited involvement of LDCs in DSM initiatives. The Central Agency would provide the benefit of designing provincial wide programs and materials. However the success of these programs will depend on the ability to work closely with customers to invest in DSM activities. C-K Hydro believes that the greatest opportunity for a successful DSM program will depend on the front line promoters' ability to convince customers to participate. LDCs, as in the past, are best positioned to deliver programs for their customers where customer trust already exists. It may be beneficial for the Board to do a survey of customer groups to find out whether the customers would prefer to deal with their LDC or a private sector provider.

As experienced during market opening, it was the LDC that got the brunt of complaints about retailer issues. This will probably also be the case if private sector providers do not live up to their promises. Customers expect and rely on the LDC representatives to provide services that will benefit the customer and will hold the LDC accountable. Most LDC customers perceive that the LDC is a public entity and since most LDCs have

municipal shareholders, customers are not shy about complaining to their elected Council members if the LDC is not delivering an appropriate level of service.

C-K Hydro feels confident that it has the capabilities to assist in the design and to deliver meaningful DSM programs that will benefit its customers. LDCs have the ability and history of working together in the delivery of non-competitive initiatives such as DSM. C-K Hydro is confident that many LDCs will work collaboratively in a cost-effective manner to deliver DSM programs that will benefit their customers and meet the targets.

Financial Implications to the LDC

Another area of concern is the recommendation that LDCs should not be entitled to "lost revenue adjustment mechanism or shared savings mechanism"(SSM). C-K Hydro believes that since the LDC is limited through regulation regarding what additional revenue generating initiatives it can participate in, it is unfair to penalize the LDC through reduced distribution revenues as a result of successful DSM initiatives. LDCs are responsible for maintaining and replacing distribution infrastructure to ensure a safe and reliable distribution system is in place to serve customers. Without a safe and reliable distribution system that can meet the needs of all customers the local community could be negatively impacted economically because industries will not locate where there are perceived reliability issues. At a minimum, LDCs should be held financially harmless from DSM programs.

The incentive of a "shared saving mechanism" is an opportunity to reward LDCs that are successful in delivering DSM programs and ultimately helping to control the volatility of the commodity price for all customers. The SSM incentive would help the municipal shareholder to encourage their LDC to fully participate in DSM because ultimately it will be the community that reaps the benefit of the performance incentive. The additional incentive would be used for distribution system enhancements that would lower system losses and maintain a safe and reliable distribution system.

Summary

In summary, C-K Hydro believes that LDCs should have a leading role in developing and delivering DSM programs to their customers with whom they have developed a trusting relationship. Also, LDCs should be held financially harmless from DSM programs.