

February 9, 2004

Mr. Paul Pudge  
Ontario Energy Board  
PO Box 2319  
2300 Yonge Street, 26<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Mr. Pudge:

**Re: Electricity Distributors Association Response to RP-2003-0144 – Staff Report to the Board on Demand-Side Management and Demand Response**

Attached please find nine copies and the electronic copy of the Electricity Distributors Association (EDA) comments on the OEB staff's Report to the Board on Demand-Side Management and Demand Response. The comments are based on input from the EDA's DSM Task Force, which has been working in parallel with the OEB's process in order to provide input to LDCs participating in the OEB's Advisory groups, and to develop EDA's policy positions on DSM/DR. The EDA's DSM Task Force believes distributors should have the opportunity to take a lead role in delivering DSM and that similar benefits as those identified for the central agency model could be achieved through a volunteer LDC Agency. Given the short timeframe to prepare a response, the DSM Task Force has not had an opportunity to consult with the wider membership on more specific proposals and as such the EDA response provides a high level description of the DSM/DR policy framework comparable to that provided in the OEB Staff Report to the Board.

The EDA believes distributors have an important role to play in DSM/DR and that proper commercial incentives and mechanisms to protect against revenue loss are needed to ensure distributors will be actively promoting and implementing DSM/DR.

Yours truly,



C.C (Charlie) Macaluso  
Chief Executive Officer

## **Electricity Distributors Association Response to RP-2003-0144 – Staff Report to the Board on Demand-Side Management and Demand Response**

The OEB Staff Report to the Board on Demand-Side Management and Demand Response (RP-2003-0144) suggests that a Central Agency should be responsible for the delivery of demand-side management (DSM) and demand response (DR) activities in Ontario's energy sectors. The staff report notes that:

“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 EDA is concerned that without the active participation of the energy delivery sector in the delivery of all DSM/DR activities, the significant amount of load reduction being sought by the Government of Ontario may not be achievable. The lack of new private sector investment in generation and the proposed shut-down of coal-fired generation in Ontario, has increased the need to achieve significant load reduction in the next few years.

Under ideal circumstances, DSM could be delivered through market forces and the primary task would be to reduce market barriers through a transformation of the marketplace. Unfortunately the Province is facing something less than ideal circumstances. Given the immediate need to provide sufficient DSM to both alleviate the forecast shortage of power and help lower pricing for consumers, active participation of distributors and many other entities will be required to meet the aggressive goals of the province. DSM/DR resource acquisition should be the primary objective for the next few years. Delivering DSM/DR programs through local distributors will greatly increase the success of DSM/DR programs. Customers consider distributors trustworthy and would be more willing to participate in programs endorsed and supported by distributors. The easy access distributors have to all customers will facilitate the delivery of DSM/DR related information. Some distributors have significant experience with, and stranded investment in, load management systems. Utilities are ideally positioned to deliver incentives, through normal customer billing, to customers participating in load management programs.

Active support of distributors requires a mechanism to ensure revenue requirements are not eroded and requires distributors to be commercially rewarded. A significant portion of distributor revenues are recovered through variable rather than fixed charges. Reduced energy consumption through DSM/DR will impact on distributor revenues. Without a mechanism to compensate them for lost revenues, the distributors will most likely not be active participants in DSM/DR.

The Electricity Conservation & Supply Task Force (ECSTF) recognized this issue in their recent report to the Minister. The ECTF report notes that distributors have “little incentive to promote conservation and face financial barriers to doing so. LDCs face the risk of delivering conservation programs and losing revenue because of lower volume throughput.” The Task Force noted that distributors are favourably positioned to provide conservation programs due to

their close relationship to customers, their understanding of local conditions, their goodwill, customer trust, loyalty, brand recognition and their technical expertise. (ECTF Report, pg 40) As a result, the ECTF recommended that:

“Local distribution companies and transmitters should be compensated under appropriate regulatory oversight whenever they invest directly in demand side management, or work with private sector companies to facilitate it. They should also be compensated for revenue loss resulting from conservation.” (ECTF Report, pg 45)

The Staff Report appears to take issue with this recommendation by noting that the revenue protection for Union in 2001 was 42% of total DSM spending and that regulatory oversight of the utility payments has been complex and controversial (page 16-17). The EDA believes that it is inappropriate to label the revenue protection funds as “spending” and implying that it is an avoidable cost. Not compensating distributors for lost revenues does not create any real cost savings. In addition, distributors are seeking incentive payments that are comparable to those provided to other commercial entities, so it is inappropriate to take issue with utility incentives. The EDA agrees that compensation approach used for gas distributors has been complex and controversial, and notes that the gas companies have put forward suggested approaches to simplify the budget and target setting, and the evaluation/audit process. The EDA agrees that a better more simplified approach is needed for the electricity distributors and that further work and consultation is required. The EDA believes that distributors’ revenues should be protected regardless of who delivers DSM/DR. The approach to protect distributors’ revenues will need to be identified upfront to reduce regulatory uncertainty.

The EDA believes giving distributors commercial incentives will encourage them to pursue as much DSM/DR as can be economically justified. Commercial incentives will also encourage distributors to pursue DSM/DR as efficiently and cost effectively as possible.

The Staff Report notes that the Central Agency Model has some advantages not available through the OEB –Utility Model, such as a single point of contact for all players, economies of scale through consistent, province –wide policies, and consistent program rules. As a result the EDA is proposing a hybrid model, which incorporates the features of both the Utility Model and the Central Agency Model. The EDA is proposing that distributors establish their own central LDC DSM/DR Agency that will work with distributors in the delivery of a wide range of DSM and DR programs. The LDCs and their Agency would work with other private sector players such as energy service companies and retailers in delivering DSM/DR. The following outlines the activities of both the LDC Agency and distributors as proposed by the EDA.

### ***LDC DSM/DR Agency Role***

- Through consultation with the Ministry, OEB, LDC’s and the Marketplace, develop overarching policy directions re DSM and DR, and implement planning/evaluation parameters set by legislation or OEB regulation (e.g., screening test methodologies, avoided cost parameters etc)
- Develop and support all ‘common’ aspects of utility DSM programs where scale economies can be realized and duplication of effort among utilities and private sector can be avoided

- Carry out appropriate R&D projects for potential DSM programs and test new technologies consistent with overarching DSM objectives
- Carry out program design, program screening (i.e., for economic and/or cost feasibility), and central aspects of program monitoring and evaluation and reporting
- Consolidate LDC DSM activities and report and assign revenues in accordance to the reported DSM results
- Deploy information support activities (e.g., customer education, mass market promotions, branding etc)
- Arrange for delivery of actual programs in cross distributor boundary circumstances through contracts with LDC's and the private sector.
- Provide all required regulatory support for programs in which the LDC Agency is involved
  - Seek regulatory approval for programs, targets
  - Aggregate utility results for incentive payment amounts (e.g. Shared Savings Mechanism) for distribution to or collection by utilities
  - Gather and correlate information to support revenue protection mechanisms
- Coordinate LDC and Private Sector DSM activities with existing programs provided by the Federal and Provincial Government to avoid duplication of activities
- Analyze results from all programs initiated and supported by the Ontario Marketplace to ensure full recognition of customer participation.
- Establish liaisons with Manufacturers to pursue energy efficiency improvements in their products.
- Provide information, and appropriate authorities to implement changes to appliance standards
- Provide information, and work with gas utilities and appropriate authorities to ensure building codes are updated to provide long-term building efficiency improvements regardless of fuel source.
- Provide input and lobby for market design/rule changes
- Provide information to Government for development of tax incentives
- Provide a forum for stakeholder input to DSM/DR programs
- Create standards against which DSM/DR programs are evaluated

### ***LDCs Role in DSM/DR***

DSM involvement by LDC's should not be limited to specific activities, but open enough to allow for anything from investing in local generation supply (distributed generation to obtain megawatts of supply) to establishing demand response programs (load shedding to obtain megawatts of reduction in demand).

In general the role of distributors should be the following:

- Communication of individual utility needs, interests, priorities to the LDC Agency
- Act as an administrator for all DSM activities within the franchise area, working in concert with all private sector companies to deliver established programs.

- Report all DSM activities to the LDC Agency for recovery of lost revenue.
- Disperse program incentives to appropriate parties which implemented DSM programs
- Provision of required program delivery or other information to the LDC Agency (e.g., actual units installed, customer growth, etc)
- Information feedback to the LDC Agency concerning field experience with DSM programs
- Normal course regulatory obligations (including revenue protection mechanisms) plus any requirements dovetailing with regulatory applications put forward by the LDC Agency
- Develop and implement Local DR programs either alone or through private sector partnerships
- Any local DSM programs (e.g., customer education etc) undertaken separately from the LDC Agency
- Provide a point of contact for individual customers
- Circulate educational materials
- Provide customers with information regarding specific programs available from LDC or the LDC Agency
- Provide metering technologies that would allow for the measurement of conservation programs
- Set innovative rates to encourage DSM and DR
- DSM involvement by LDC's should not be limited to specific activities, but open enough to allow for anything from investing in local generation supply to establishing demand response programs.

The LDC Agency would work with distributors to ensure DSM/DR programs are available to customers across the province. In situations where the distributor may not want to take a lead role in their local service territory, the delivery of DSM/DR could be contracted out to a third party, which may be another distributor.

A successful DSM/DR program generally requires wide stakeholder support. Support is best achieved by obtaining input in the program design process. The LDC Agency will seek input from distributors, government, regulators and stakeholders in developing programs. The EDA recognizes that individual distributors may have unique circumstances that may need to be addressed in the programs. Working with distributors to address their concerns will increase the likelihood of success. For DSM programs that are designed for customers with multiple locations (e.g. chain accounts), the LDC Agency will develop consistent program rules. The LDC Agency will seek as much consistency as possible for most DSM programs, but will recognize that some programs will require adjustments for local circumstances.

Support for programs will also be sought from private sector delivery agents. For certain programs the primary delivery agent may be from the private sector. For those situations local distributors will play a supporting role. The LDC Agency will also work cooperatively with Ontario's gas distributors to develop coordinated programs, which may involve both gas and electricity.

The EDA generally supports the proposals for Demand Response, however it should be noted that economic demand response programs might be needed for more than the 3-5 years, as it may take longer for customers to overcome the barriers they face in responding to price signals. The EDA understands that distributors would be allowed to act as load aggregators and would work with other load aggregators to facilitate demand response.

In closing, it should be recognized that a clear consistent commitment for DSM/DR is needed. In order for distributors to establish an LDC Agency and accept the role of DSM/DR delivery, a clear policy framework is required that will not be changed for several years. Distributors over the past few years have experienced a high degree of uncertainty, as have other industry players. Distributors have experienced first hand the build-up of DSM programs in the early 1990's, and the subsequent elimination of those same programs. Distributors generally took issue with many of the 1990s DSM programs carried out by Ontario Hydro, because distributors were not adequately consulted in program design, programs were not flexible to meet local needs and no incentives were provided to distributors to deliver the programs. The same mistake should not be made today.