

6 February 2004

The Hon. Howard I. Wetston
Chairman, Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, Ont.

By Fax – 3 pages including this

Dear Mr. Wetston:

Re: Board Staff Recommendations on DSM and DR

I write on behalf of the Green Energy Coalition which includes the David Suzuki Foundation, Energy Action Council of Toronto, Greenpeace Canada, and Sierra Club of Canada. We wish to express our disappointment with Board Staff's recommendations in regard to electricity DSM.

GEC has played a lead role in the OEB's processes concerning gas DSM and has sought a similar approach for the electric sector. In the gas sector we have seen DSM grow from a concept to a highly successful reality. The OEB regulated gas DSM programs have already put in place measures that will save customers approximately \$1 billion dollars (net present value).

We have advocated for a streamlined electricity DSM model that incorporates winning features of the gas model while recognizing the multi-LDC reality in Ontario.

We were alarmed to see that Board Staff's review of the two primary models is astonishingly one-sided. While listing concerns with the utility model, they have completely ignored problems with a central approach, ignored the success record of the gas LDC model, and haven't considered a hybrid which captures the strengths of both approaches and corresponds with recent Government initiatives and the recommendations contained in the Electricity Conservation & Supply Task Force report. The concerns raised by staff are largely unsupported by analysis. For example, staff suggest that marketing costs would be higher for a utility model. Surely economies of scope such as utilizing existing mailing, billing and customer call centre capability would make marketing of many programs less expensive.

Board Staff purport to acknowledge a limited role for LDCs, but have prescribed an approach which makes a mockery of the Board's legislative mandate to promote energy efficiency. By favouring the use of the Utility Cost Test as a screen for LDC investment in efficiency, staff have in essence said that the customer and societal benefits of energy efficiency are of no concern. Jurisdictions all over North America have recognized that efficiency investment screening must count all costs and benefits to consumers not just those borne or enjoyed by the utilities.

A hybrid model, which incentivizes the LDCs and utilizes a central 'conservation champion' to ensure coordination and encourage compatible government action addresses all the supposed shortcomings of the utility model that Board Staff have listed. A conservation champion would coordinate market transforming efforts of different agencies and utilities and help ensure that the full range of public resources are harnessed, including action by the Ministry on codes, the IMO on DR, and other ministries such as Education, Housing and Government Services in their respective areas. Such an approach is consistent with the Government's announcements and the Task Force recommendations and is not inconsistent with OEB regulated utility efficiency.

Some intervenor groups do dislike OEB regulated LDC efficiency -- apparently because it works. They see short term rate levels as the key issue and simply ignore reduced customer bills, longer term rate reductions and other benefits of energy efficiency. Such nay-sayers bolster their case by expressing concern about regulatory burden but they ignore the fact that the model elaborated in the Advisory Group report addresses that concern head on.

Board Staff seem to have been infected with this myopia as evidenced by their elaboration of the 'cost' of lost revenue compensation. Utilities lose revenue whenever any customer conserves, whether due to independent customer investment in efficiency, or due to government programs or utility encouragement. As commodity sales decline (or fail to rise as quickly as forecast) due to energy efficiency, rates need to be adjusted to keep utilities whole in *any* model. The only potential difference for a model that includes active LDC participation is that the regulator is called upon to address lost revenue within the rate period (to remove the disincentive to energy efficiency success that exists in a prospective rate setting situation). However, given that we utilize a multi-year PBR approach for electricity LDCs, this may be a distinction without a difference in Ontario. As Board Staff acknowledge, rate relief for reduced revenues due to non-forecast conservation will likely be needed in any event. Indeed, if lost revenues or rate levels (rather than bill levels) were really of paramount concern, we would encourage energy waste as this would increase throughput and lower unit energy cost (while raising bills)!

Finally, no matter what model is pursued it is vital to consider the essential features that would enhance the likelihood of that approach being successful. Transparency and accountability are high on our list. We have witnessed the lackluster performance of many internal government programs that build bureaucracy rather than results and we have seen the problems that arise when DSM is not regulated and accountable as was the case with Ontario Hydro. While noting the view of the Advisory Group, Board Staff does not make firm recommendations on these important matters. We urge the Board to learn from past lessons. Transparency and accountability through public regulation is vital. The OEB should not be shy in asserting the need to regulate DSM.

Accordingly, we urge the Board to give strong consideration to a hybrid model that harnesses the LDCs to deliver DSM and utilizes a conservation champion to ensure coordination and breadth of approach. The LDCs must be regulated by the OEB with disincentives removed and a simplified incentive applied to maximize customer value and bring a fast response to the challenge of balancing energy supply and demand.

At this point we are not clear on the next steps. As a member of the Advisory Committee we had not been advised that Board Staff would issue a formal recommendation but are pleased

that they have done so and we have had this opportunity to comment. We had been advised that we would have an opportunity to comment on the Board's draft position paper prior to a final recommendation to the Minister being issued. We would appreciate learning if that is still the Board's intention.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Poch', written in a cursive style.

David Poch
Counsel to the GEC

cc: The Honourable Dwight Duncan, Minister of Energy
Ms Donna Cansfield MPP, Conservation Action Team Chairperson
Ms Marion Fraser