



February 9, 2004

Paul Pudge
Assistant Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, Ontario
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**Re: RP-20030144 – Participation from Listed Stakeholders
Consultation on Demand Side Management (DSM) and Demand
Response (DR)**

Dear Mr. Pudge,

Hydro Vaughan Distribution Inc. is pleased to participate in the subject consultation and has the following comments with respect to the Demand Side Management (DSM) and Demand Response (DR) staff report dated January 23, 2004.

In principle, Hydro Vaughan Distribution Inc is supportive of DSM and DR programs and their potential to benefit all stakeholders in the Ontario electricity market. The concept of a Central Agency to deliver DSM and DR activities in Ontario's energy sector has merit if the organization entrusted with this responsibility clearly defines the role that Local Distribution Companies (LDCs) are expected to play and recognizes the considerable differences amongst LDCs with respect to size and customer mix (i.e. commercial vs. residential customers).

In Hydro Vaughan's case, 65-70% of our peak load comes from a commercial/industrial customer base. This large customer group provides a very significant opportunity to realize substantial savings through properly managed DSM initiatives that are targeted specifically to that customer group. Alternatively, less focused "blanket" DSM programs to entire classes of customers have the potential to cause revenue losses while increasing service costs.

Other key aspects that the Central Agency should address include program funding and the subsequent costs of these initiatives to participating LDCs. Currently, DSM activities are funded within LDC rate caps with no certainty that any of the gains achieved by investing in DSM and DR interventions will be retained in a future rate submission. Therefore, to encourage participation by LDCs in DSM and DR initiatives, financial incentives should be offered for achieving base targets, based on customer diversity.

. Hydro Vaughan views the following areas as representing the best opportunities for an effective LDC and Central Agency partnership to directly contribute to the success of this DSM/DR initiative.

- * Information exchange on technologies and programs for DSM
- * Co-operative support for development and demonstration of DSM technologies.
- * Investigation of techniques for implementation of DSM in the market place and methods for evaluating the results.
- * Development of improved methods for incorporating DSM into integrated resource planning to ensure appropriate asset management.
- * Helping DSM technologies reach their full market potential with established measurable targets.
- * Defining and developing DSM investment incentives for LDC's.

Hydro Vaughan views DSM and DR programs as natural allies of peak load management, contributing value to the LDC in terms of reduced system losses and capital expansion deferral. These benefits, as well as providing value to customers, improve Ontario's electricity system efficiency and reduce the risk of system brownout or blackout.

It is our belief that success in delivering DSM and DR activities through LDCs can be realized if the rate application process and DSM initiatives are carefully coordinated to ensure affordability, financial prudence and the rate base recovery of qualified investments. Also, the distribution planning process is optimized when LDCs make their investment decisions based on the prioritized needs of their service territories as LDCs have the best understanding of the demographics of their customer base and can best respond to local concerns and issues.

Hydro Vaughan views the following programs as core initiatives that could most effectively be delivered by the LDCs:

- Energy-efficiency programs that will reduce energy use, both during peak and off-peak periods, typically without affecting the quality of services provided. Such programs substitute technologically more advanced equipment to produce the same (or a higher) level of end-use services (e.g., lighting, heating, cooling, drive power, or building shell) with less electricity.
- Peak load reduction programs that will focus on reducing load during periods of peak power consumption on a utility's system, time-of-use rates, direct load control, and other load management programs.
- Load shape flexibility can be achieved by programs that modify prices, cycle equipment, or interrupt service in response to specific changes in power costs or

resource availability. These approaches could include real-time pricing and time-of-use rates for pricing periods that have flexible hours.

In closing, of all the worthwhile DSM and DR initiatives that can help build energy efficiency for electricity users, the most sustainable ones are those that also benefit all stakeholders. As Performance Based Regulation approaches, a blended combination of all available options will maximize benefits for electricity consumers, LDCs and generating and transmission companies within the Province of Ontario.

Yours truly,

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