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**By Facsimile, E-mail & Courier**

February 9, 2004

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Mr. Paul B. Pudge  
Assistant Board Secretary  
Ontario Energy Board  
2601 - 2300 Yonge Street  
Toronto ON M4P 1E4

Dear Mr. Pudge

**Comments on Staff Report to the Board on DSM and DR**

**Board File: RP-2003-0144**

**Our File: 302701-000367**

I am writing on behalf of the Industrial Gas Users Association (“IGUA”) in response to the January 23, 2004 Staff Report to the Board on Demand-Side Management (“DSM”) and Demand Response (“DR”) in the Energy Sectors. IGUA’s comments are limited to Section 3.4 of the Report, which addresses “Conservation Funding”.

The Staff Report recommends that Natural Gas DSM initiatives be funded by a consumption charge per m<sup>3</sup> to be levied on all customers. In the Report, Staff estimates that in fiscal 2001, the average charge per m<sup>3</sup> for Enbridge Gas Distribution Inc. was 0.15¢ and for Union Gas was 0.05¢. Based on these estimates, the Report suggests that 0.15¢ per unit could serve as a baseline for the consumption charge in future years to be set by the Central Agency.

Before a consumption charge is set, either the Central Agency or the appropriate regulatory body must fully assess the appropriateness of the consumption charge. Such an assessment must be detailed and must allow for full participation by interested parties. In this regard, it is not appropriate for the consumption charge to be based on the highest estimate from 2001. Such an approach would, in IGUA’s submission, result in an excessive charge to ratepayers.

Furthermore, as set out in the Report, the consumption charge would be applied equally across all customer classes regardless of the DSM budget allocation per rate class or the benefits achieved within each rate class. Such an approach is inconsistent with the principles of cost causality and will inevitably lead to cross-subsidization between rate classes. The simplicity of applying the same consumption charge per m<sup>3</sup> to all the rate classes does not justify an abandonment of these basic rate-making principles.



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As such, if a Central Agency is to be funded by consumption charges, then either the Central Agency or the appropriate regulatory body must determine the appropriate allocation methodology for the consumption charge. The appropriate consumption charge and the proper allocation methodology must be determined within a public hearing before being imposed on ratepayers.

In the alternative, if the Board feels that it must recommend a level of funding per  $m^3$  to serve as a baseline for the consumption charge in future years, then that baseline should be at the lower end of the range which is  $0.05\text{¢}$  per  $m^3$ , instead of the highest end of the range as suggested by Board Staff.

Yours very truly

Borden Ladner Gervais LLP

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