

VIA ELECTRONIC FILING AND COURIER

February 9, 2004

Mr. Peter H. O'Dell
Assistant Secretary
Ontario Energy Board
26th Floor, P.O. Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Mr. O'Dell:

**Re: Comments on Staff Report on Demand-Side
Management and Demand Response, RP-2003-0144**

The Ontario Energy Board (the "Board") has been directed by the Minister of Energy to consult with stakeholders on options for the delivery of demand-side management (DSM) and demand response (DR) activities within the electricity sector, including the role of local distribution companies in such activities. The Minister's Directive also referred to the potential role for load aggregators within the markets administered by the Independent Electricity Market Operator (the "IMO").

The IMO appreciates the opportunity to provide further comments in these deliberations, and more specifically on the Staff report to the Board. As a general matter, the IMO builds on and relies on its earlier submission. In particular, the IMO believes that any policy framework proposed by the Board must:

- Enable efficient linkages between wholesale and retail markets,
- Promote wide-based consumer participation in electricity markets,
- Promote early co-ordination between policy initiatives and participants, and
- Capitalise on existing services that can be leveraged or expanded to support province wide demand-side strategies and objectives.

The IMO comments on the Staff report to the Board are confined to issues relating to the IMO's current mandate in the wholesale electricity market and the DR recommendations.

Proposed Framework for Delivery of DSM and DR

The IMO is a proponent of demand side participation in the electricity market and is interested in participating in the development and enabling of a provincial strategy that is consistent with the IMO's mandate. The IMO agrees that co-ordination and integration is essential. Consequently, it is important that the roles and responsibilities of the Board, IMO, and the "Central Agency" be clearly defined for DSM and DR initiatives. It is also important that any actions undertaken or structures put in place for DSM and DR activities should not impede the ongoing evolution of the competitive electricity markets.

Funding of DSM and DR

The Staff report proposed that DSM and some DR initiatives should be funded by way of a non-bypassable consumption charge based on kWh consumption and a set tariff rate. The report also suggested that these charges might be collected in a manner similar to the Debt Retirement Charge (DRC) and has provided a framework suggesting how funds might flow in this regard.

To the extent that the DSM and DR activities will be funded through the collection of a non-bypassable charge based on energy consumption, a number of important factors will need to be considered, including the treatment of losses and how the funds will flow given the existing settlement construct. For example, participants in the IMO-administered market are currently billed the DRC based on the amount of energy withdrawn from the IMO-controlled grid including applicable losses. On the other hand, DRC that is collected and remitted by distributors and retailers does not account for losses. Implementation details must be assessed and given additional consideration, including how best to collect and administer a charge for funding DSM and DR activities to ensure fairness, consistent treatment with other non-bypassable charges and limit potentially adverse impacts on existing settlement processes and systems.

The report also proposed that the consumption charge be levied on all consumers including self-generators (e.g., load displacement generation). The Board must appreciate that this may prove to be a disincentive to self-generation, and may be difficult to measure for the calculation of the consumption charge.

Proposed DR Activities

The IMO notes that there is already DR activity in the electricity market. Actual consumption reflects activities that are being undertaken in the electricity market on an economic basis by the consumer. As the IMO continues to develop a pilot program to encourage the development of infrastructure to support voluntary or natural DR activities, the ultimate objective is to provide price signals to consumers, as natural price response is economically preferred. Intervention in the market has been identified as a deterrent to new investment in generation.

The IMO believes that DSM and DR should not be excluded from competing with supply side options.

Load Aggregation

The report recommends that the IMO revise the Market Rules to facilitate load aggregation (e.g., through statistical measurement, and addressing metering and settlement provisions requirement). In principle, the IMO supports aggregation of retail load and is reviewing existing issues and barriers to promote and facilitate load aggregation in the IMO-administered markets.

The relationship between Load Aggregators, host distributors, and participating retail customers must be established through appropriate codes, license amendments, and rules and procedures at the retail level. This will include, among other things, the treatment of multiple aggregators operating in the same service area, data sharing and code of conduct for engaging in commercial activities.

Consumer Information and Education

The IMO agrees that there remains a large potential to expand the contribution that demand side activities makes in managing the reliability of the integrated power system and, in the long-term, helping address the supply shortfall facing the province.

On the wholesale level, the IMO has a clear role in facilitating demand response through the market and creating awareness of DSM in general. Wholesale customers, however, only account for 17 per cent of the load. The remaining 83 per cent of Ontario load that purchase their energy through local distribution companies represent an enormous untapped potential to manage demand.

Role of Conservation Champion in Consumer Information and Education

The Electricity Conservation and Supply Task Force highlighted the need for a “Conservation Champion” that would foster the development of a conservation culture throughout the province. This position was supported in the Board Staff report calling for a Central Agency that would be responsible for the design and delivery of DSM and DR initiatives.

The challenge before the Conservation Champion is to move beyond awareness of conservation issues and mobilize behaviours that create real and sustainable results. The IMO believes that the work of the Conservation Champion must take into account the contribution DSM and DR can make in managing Ontario’s power requirements.

A far-reaching consumer-oriented program is needed to mobilize individuals and businesses that are accustomed to a relatively cheap and plentiful energy supply.

While there are a number of incentive programs and technologies available to help consumers improve their energy efficiency, there is no one-stop shopping, nor can consumers generate direct benefits from shifting their energy use to off-peak periods. Broad statements about the need to conserve electricity – particularly during tight demand supply periods -- must be supported by tangible incentives and actions that consumers can take to improve energy efficiency and reduce consumption. The results of these actions must be communicated to demonstrate the impact that conservation is having on reliability.

As a result, the Conservation Champion must have the resources to conduct far-reaching education campaigns, but also develop or foster the development of a focused energy efficiency program that can generate measurable and sustainable results.

Role of the IMO in Consumer Information and Education

Over the last year, the IMO has been broadening its involvement with non-market participant groups to expand the level of demand responsiveness amongst the general public and business users.

High-Volume Consumers: Businesses that consume more than 250,000 kWh of electricity per year represent almost 40 per cent of the Ontario's energy load. While some of these organizations employ interval meters and curtail consumption during peak periods, there remains a considerable segment of this user group that is not aware of the benefits that demand response can deliver, or that doesn't have the tools to act on fluctuations in the market price.

The IMO, in partnership with the Board and local utilities, conducted pilot seminars for this customer group to provide information about market prices and energy management practices. These seminars have generated significant interest – particularly in interval meters that would facilitate demand response.

The IMO's Economic Demand Response Program, described in the report, is designed to harness some of the untapped potential these consumers have to shift their energy use. By aggregating non-market participants, this program helps to bridge the barriers that prevent smaller companies from adopting demand response technologies and behaviours.

Low-Volume Customers (<250,000 kWh)

Low-volume customers account for 45 per cent of all consumption, yet they are virtually immune to the impact of tight energy supplies.

Moving forward, conservation efforts will depend in large part on the pricing regime currently in development by the Board. The interim pricing plan, to take effect on April 1, should help reduce overall consumption levels, by raising rates for consumption over 750 kWh a month.

For its part, the IMO has and will continue expanding its communications efforts to raise public awareness of its role and how the market balances supply and

demand. For example, public appeals and communications during the August 14 blackout have served to raise public understanding about how much capacity is available in the province, the contribution of imports, and the need for conservation in order to avoid rolling power outages. The media and public look to the IMO for updates on how much electricity is being used in the province, and whether we have enough generation to meet that demand.

New consumer-oriented publications, pro-active media relations, roundtable discussions in communities across the province, as well as soon-to-be expanded consumer information on the Web, are also working to raise awareness of reliability and market issues. This level of awareness, however, is not enough to generate sustained conservation behaviours. A next step is needed to translate this understanding into conservation measures that deliver direct benefits to both the consumer and the market as a whole.

In summary, the IMO recommends a co-ordinated communications effort involving a number of organizations including LDCs, the Board and the IMO. The customer education efforts would be split in two, with the LDCs and the OEB primarily addressing low-volume customers who are on a regulated, fixed price and the LDCs and the IMO addressing customers who are subject to a market price. The co-ordination could occur through a Central Agency with clear accountabilities assigned.

RESPECTIFULLY SUBMITTED THIS 9TH DAY
OF FEBRUARY, 2004



Carl Burrell
Senior Analyst
Independent Electricity Market Operator

