

February 4, 2004

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario
M4P 1E4

Attn: Assistant Secretary

Dear Sir/Madam:

Re: RP-2003-0144 Staff Report to the Board on Demand-Side Management and Demand Response.

We are writing to offer our comments on RP-2003-0144 Staff Report to the Board on Demand-Side Management and Demand Response, as outlined in the letter sent to us from Elizabeth A. Mills, Director, Regulatory Affairs of the OEB, January 23, 2004.

In reviewing the letter and the Board report and recommendations London Hydro wishes to have the following comments considered:

Recommendation 2

- London Hydro supports the Board recommendations for a hybrid framework using both market-based and public-policy approaches to demand side management (DSM).

Recommendation 3.1

- London Hydro supports the Board recommendations for: a Central Agency responsible for delivery of DSM and DR activities in Ontario's energy markets; and a coordinated effort of the MOE, OEB and the IMO for DSM and DR activities.

Recommendation 3.2

- London Hydro supports the Board recommendations for transmitters and distributors to act as delivery agents of DSM/DR activities as it relates to least-cost planning and/or optimizing their distribution systems, however this should be limited to investments in enabling technologies only.

- We do not support the Board recommendation to put in place regulatory mechanism's to induce ... to reduce distribution losses, however we do support a process which provides incentives to achieve system loss reductions.

Recommendation 3.4

- London Hydro supports the Board recommendations for initiatives to be funded through a transparent, non-bypassable consumption charge (kWh).

Recommendation 4.2

- London Hydro supports the Board recommendations for having interim and long-term SSS fixed pricing strategies in the market, however we do not support the OEB as the party to set these rates; the OEB's role should be limited to approving the basis of such rates as submitted by the load serving entities (LSE). We prefer the option of the distributors designing locally driven price incentive rates and track variances for future recovery subject to the OEB's approval.
- London Hydro supports the preferred concept of distributors acting as load serving entities (LSE) in the market and allowing them to enter into various supply contracts with sellers of electricity and then use contract prices to set fixed rates for SSS customers.
- We support the Board recommendations for time-differentiated and seasonally adjusted commodity prices to designated (fixed price customer) consumers where the appropriate TOU or interval meters are in place. This rate design should be a standard exercise of a load serving entities (LDC or retailers) responsible for managing the domestic load of the LSE.

Recommendation 5.1

- London Hydro supports the Board recommendations for educating consumers on energy choices and consequences of those choices in the Ontario market, however we do not support the Board being given the responsibility of the design and delivery of consumer information campaign's regarding conservation, energy efficiency, load management and cleaner sources of energy. These efforts could more effectively be coordinated through the proposed Central Agency using other stakeholders such as retailers, performance contractor's, generators and distributor's (billing agents) as partners in disseminating the appropriate information. The Central Agency should, to the extent justified, finance the development and production of such communication elements. The OEB's role should be to monitor, measure (benchmark), and inventory these efforts with annual reports to the MOE.

General Comments

- London Hydro feels that the distributors role in DSM should be limited to soft participation and that their activities be related to conservation awareness campaigns and to act as a liaison only between the retail participants and the customers. Distributors can participate in the hard delivery of DSM through their affiliate companies. It is our opinion that unless the LDC role is changed to

include the LSE role in the marketplace that the delivery of DSM should be managed through the competitive market participants and the Central Agency. Competitive retail market participants are better able to package energy efficient products with power procurement price contracts than the distributors. However, whichever model is pursued we recognize that the distributors do have a considerable role as the meter service provider, data collector and majority-billing agent in the Province; as such, distributors should be required to play a supportive role.

- London Hydro supports the observations within the report regarding the negative financial impacts made on distributors from DSM campaigns and recommend that rate relief to offset the effects on their bottom line, cash flow and working capital be made available. As an example, consideration could be given to modify distribution rates more on a fixed basis rather than a volumetric basis; and for distributors choosing to act as LSEs in the marketplace allow them to build in DSM initiative cost in their commodity price (OEB approval). The distributors then could also use this model as an incentive to invest in least-cost planning and/or optimizing their distribution systems, which tend to have long payback periods.
- The report does not cover enough detail regarding the role of distributors as default meter service providers, data collectors and handlers or billing agents to the majority of end use customers within the Province.
- Interval and TOU (time-of-use) metering will be a crucial component of the DSM initiatives and an open market, as you need to associate the hourly or time block price signals with actual customer use to motivate action and technological investment. Metering technology will empower consumers to have control over their energy charges, generate DSM benefits and enhance their acceptance of an open market. Customers will need options if they are to respond in real time to price signals. Customer action through the use of metering and gateway technologies will influence the energy demand curve to become more elastic (Price responsive). The benefits¹ to the market place from a customer reacting to price and time would be the same as the report outlines in Section 4 related to demand response.
- Current distribution rate designs do not accommodate for the cost recovery of the more expensive (mass proliferation) metering, data collection and billing systems as rates are based on the old market structure. Therefore, we recommend that the original concept of distributors using one year of MBRR for conservation and demand management be implemented for installing new meter technologies. In our view, one year of MBRR funds would not be sufficient to install new meters (TOU/interval) for all customers. Therefore, the OEB should establish a multi-

¹ OEB, RP-2003-0144 Staff Report to the Board on Demand-Side Management and Demand Response, January 23, 2004, Section 4.1.1, Page 28 – “the market saves \$9.50 for every \$1 of incentive payment to responding load”.

year plan to affect such a proliferation of meters and establish some funding mechanism for it.

We appreciate the Board's consideration of the above and if you require any further information or clarification please do not hesitate to contact us.

Respectfully,

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