

**COMMENT OF THE WHOLESALE GAS SERVICE PURCHASERS GROUP**  
**ON THE STAFF REPORT TO THE BOARD**  
**ON DEMAND-SIDE MANAGEMENT AND DEMAND RESPONSE**

The Wholesale Gas Service Purchasers Group (“WGSPG”) has reviewed the Staff Report to the Board on Demand-Side Management and Demand Response (“Report”) and has a number of comments, as follows.

**Double Taxation**

The Report recommends that gas DSM initiatives be funded by a transparent consumption charge per m<sup>3</sup> and that electricity DSM and some retail DR initiatives should be funded by all electricity consumers, also through a transparent, non-bypassable consumer charge per kWh. The Report also raises the issue of whether the gas consumption charge should be levied on gas-fired generators, regardless of size or use as this could be considered double taxation.

WGSPG would like to raise the issue of double taxation in a slightly different context. The WGSPG members are themselves natural gas distributors that would be required to collect the transparent consumption charge from its customers. These distributors receive service from Union Gas under rates M9, M10 and are eligible to receive service under rates T3 and U9. If Union were to collect the consumption charge on these rates, the end-use customers of the WGSPG members would, in fact, be taxed twice. As a result, WGSPG recommends that Union’s rate classes M9, M10, T3 and U9 should be exempt from the inclusion of the consumption charge.

**Own Use Gas Consumption**

Similar to the issue of double taxation noted above, WGSPG notes that there is an issue of natural gas used by the utilities for their own consumption. While this gas use is small for the WGSPG members, it does have a direct and indirect impact on the rates paid by the WGSPG ratepayers.

The direct effect is that the consumption charge would increase the cost of service, resulting in an increase in the revenue requirement of utility. This is a form of double taxation to the utility ratepayers. The indirect effect on the WGSPG members is if this consumption charge is applied to compressor fuel used by Union Gas, for example, then this additional cost to Union would also be reflect in their rates charged to their customers. Again this could result in a form of double taxation to utility ratepayers.

### **Costs to Small Utilities**

The WGSPG members are relatively small natural gas distributors. The largest WGSPG member has less than 6,000 customers. In order to make the consumption charge transparent to customers, it is expected that a separate line item will be required on the customers bill, similar to the debt retirement charge on electricity bills. The costs to implement these changes to the customers bill and the associated changes required for accounting purposes (some of which may be related to issues discussed below) could be substantial relative to the number of customers served by these utilities. Utilities with a small customer base would likely be affected to a larger extent. WGSPG recommends that the funds collected through the consumption charge be used to fully pay for these necessary changes. Ratepayers should not be expected to pay these additional implementation costs on top of the consumption charge.

### **Collection of GST on the Consumption Charge**

WGSPG does not believe that it would be appropriate to collect the GST on this conservation charge. WGSPG recommends that the Ministry of Energy and the Provincial government request an exemption from the GST for this charge from the Federal government. If this charge is exempt from the GST, this may impact on the changes required to accounting and billing systems to take this into account.

### **Central Agency**

WGSPG supports the Central Agency Model as described in the Report as compared to the OEB-Utility Model. The WGSPG opposes the OEB-Utility model for a number of

reasons. First, WGSPG notes that not all gas utilities are regulated by the OEB, so the ability of the OEB to oversee activities taken by these utilities would be questionable.

Second, due to the relatively small size of the WGSPG members it is not cost effective for these utilities to plan, implement and evaluate their own DSM programs. However, ratepayers from small utilities (gas and electric) should have equal access to conservation measures and initiatives as ratepayers from larger utilities. WGSPG also believes that it would be more efficient in terms of the overall administration for a single province wide agency rather than for a large number of utilities to duplicate administration of their own similar programs. The costs for a single administration program should be substantially lower than the costs for a large number of programs. Regulatory costs would also be lower for utilities, the OEB, and ultimately the end-use customers that pay these costs.

WGSPG does not support the OEB taking on the role of the Central Agency for DSM and DR. DSM activities have taken up considerable time at OEB proceedings for the gas utilities in the past number of years. To expand this to include the electric utilities would increase the time and resources required by the OEB to deal with these issues. In addition, WGSPG notes that there would be a potential conflict of interest if the OEB, the market regulator, was to be the agency in charge of implement, promoting and funding conservation using money recovered from end-users while at the same time protecting consumers interests through rates and other proceedings.

### **Distributors as Delivery Agents**

The Report notes that there is general support among stakeholders for a primary role in DSM and DR for distributors because distributors understand their local market conditions and their customers and that this allows distributors to design highly effective programs for their customers. As noted above, this is not necessarily true for small distributors.

WGSPG supports the Report recommendation that transmitters and distributors should be allowed to act as delivery agents of DSM/DR activities, if they so choose. WGSPG

further comments that if distributors or transmitters act as delivery agents, these activities should be classified as non-utility activities. WGSPG members have an interest in the development of a competitive market for the delivery of DSM/DR programs since they are not large enough to provide cost-effective delivery of these programs on their own. By allowing the larger utilities, if they wish, to act as delivery agents, it is essential that a level playing field be established so more organizations enter this field.

### **Variance Accounts**

The Report mentions the various variance accounts that are in place at some of the gas utilities, noting that regulatory oversight of these payments has proven to be complex and controversial.

As noted above, WGSPG supports transmitters and distributors to act as delivery agents, but as a non-utility activity. As a result, WGSPG believes that these variance accounts should be discontinued.

### **Consumption Charges on Other Energy Sources**

WGSPG is concerned over the lack of any comments regarding a consumption charge on other types of fuel such as home heating oil, heavy oil and propane, diesel fuel and gasoline. Natural gas distributors, in particular, are in competition with oil and propane to gain and retain load.

WGSPG members compete in many sectors with alternative fuels. Implementing a consumption charge on only electricity and natural gas use to finance conservation programs would result in an uneven playing field compared to other forms of energy use. The loss of load at any utility ultimately results in higher rates to the remaining utility customers. This is true in a small utility that may lose some of its agricultural load to propane and it is true in a large utility that may lose some of its industrial load to fuel oil. WGSPG recommends that if a charge is to be imposed on energy use, it must be imposed on all forms of energy use in order not to have any undesirable impact or influence on energy markets.