

RP-2003-0144

IN THE MATTER OF an OEB Staff
Report to the Board on Demand-Side
Management and Demand Response

Submission by Ontario Power Generation Inc.

February 9, 2004

Introduction

Ontario Power Generation Inc.'s (OPG's) submission is provided in response to the Ontario Energy Board's request for comments on the OEB's Staff Report to the Board on Demand-Side Management and Demand Response.

OPG appreciates the opportunity to provide its comments on the report. OPG was a participant on the DSM/DR Advisory Group and has experience with the development and delivery of DSM activities undertaken by the former Ontario Hydro. OPG's comments on the report reflect this experience as well as its perspective as an electricity generator, wholesaler and retailer.

Recommended Policy Direction

Given the current state of the Ontario electricity market - a hybrid framework in which some customer groups pay market prices and some pay fixed rates for electricity - OPG supports the recommended hybrid framework that uses both market-based and public policy approaches to deliver demand-side management (DSM) and demand response (DR). OPG recognizes that market imperfections, such as the price cap for certain customers, limit the success of the market in obtaining DSM and DR. However, the report needs to emphasize that proper price signals are the preferred long-term goal, because they will drive economic DSM and DR without the need for intervention.

Recommendations for Implementing DSM

OPG takes no position as to whether or not a new Central Agency is needed. However, if a Central Agency is to be responsible for the design and delivery of DSM activities, OPG believes that this new agency should be established as an arms-length, independent non-profit entity with full public disclosure. This structure will promote transparency, operating effectiveness and accountability.

If a new Central Agency is established, OPG believes that the following issues must be addressed during the agency's development:

- Mandating that a market regulator (such as the IMO or the OEB) act as the Central Agency would create a significant conflict with the regulator's role;
- The designers of the Central Agency should ensure that it does not become a self-perpetuating organization.
- There is a need to ensure that the Agency is up and running quickly;
- The Agency will need to have enough expertise to undertake the full spectrum of responsibilities outlined in the report (e.g. program screening, evaluation, etc.);
- The Central Agency will need to provide timely disclosure of its plans to ensure that private sector DSM and DR providers are able to participate in the delivery of specific initiatives.

With regard to the Utility Model, it should be recognized that not all utilities have expressed an interest nor possess the expertise to design and deliver DSM programs. In addition, there is the danger of creating costly duplicate infrastructures among utilities to deliver similar programs. This is a limitation of the current structure of the electricity market. If the market evolves with the formation of a small number of Load Serving

Entities (LSE's), then the role of designing and delivering DSM programs could transition to these LSE's.

The Role of the Transmitter and Distributor

OPG believes that some form of lost revenue adjustment will be needed before transmitters and distributors, which are largely fixed cost operations, would be willing to act as DSM delivery agents. Whether this adjustment takes the form of a Lost Revenue Adjustment Mechanism (LRAM) or Shared Savings Mechanism (SSM) needs to be reviewed. However, the need for this additional funding highlights the challenge of using transmitters and distributors to deliver DSM programs.

As noted in our November 17th 2003 submission, OPG's review of the experience with these programs suggests that utility-sponsored DSM and DR activities have not necessarily yielded the expected results and economic benefits. Program costs tend to be high and their impact difficult to ascertain due to complexities with measurement and verification.

Conservation Funding

Until DSM targets are established, OPG believes that it is premature to establish funding levels. OPG recommends that funding be determined after an assessment of the potential for economic programs has been completed.

Recommendations for Demand Response

OPG agrees with the statement in the Staff Report that "... *adding a payment into market settlement ... distorts the market.*" This distortion of the market also harms suppliers since they will receive lower than expected revenues. Ultimately, these distorted prices will discourage new investment and drive existing generation capacity out of the energy markets, resulting in additional costs for consumers in the long run. In addition, artificially lowered prices will reduce the benefit of long-term bilateral contracts to market participants.

In addition, as noted on page 16 of the Advisory Group's December 12th 2003 report, the objective for demand response should be "... *to achieve 'correct' or 'efficient' pricing, not necessarily lower pricing. Payment for loads to not consume is an artificial subsidy that provides incorrect market signals. ...*" For those consumers already exposed to market prices, the objective should be to improve price certainty and ease of participation. For those consumers not exposed to market prices, the focus should be on delivering the price signal to them (or aggregators representing them) enabling them to respond to that price signal where it is economic to do so.

Further, OPG recommends that monitoring and compliance mechanisms be put in place to mitigate the potential for significant gaming of these types of programs.

The Importance of Consumer Education

In addition, agencies coordinating consumer education will need to ensure consistent messages and avoid duplication. It may also be worthwhile to cooperate with, and leverage on, Federal initiatives in this regard.

Other

Page 15, item 2 of the Energy Conservation and Supply Task Force report notes that “*Research and innovation are important aspects of building a leading-edge electricity sector in Ontario capable of developing creative supply and demand solutions to the province’s power needs. ...*” If created, the Central Agency could facilitate energy research and innovation by leveraging and supporting existing initiatives directed at fundamental energy research and development, technology demonstration, venture capital deployment and commercial adoption of new technologies and practices.

There is no specific mention of distributed generation as an element in the DSM mix. In OPG’s view, both baseload (i.e. co-generation) and peaking distributed generation have the potential to increase overall energy efficiency and provide cost effective DR. In addition, combined heat and power installations are important from an energy efficiency/fuel utilization point of view and can be an important contributor to sustainable DSM. The potential use of back-up generators (where emissions issues are addressed) is worth examining. These type of installations allow for DR with a minimal impact on normal industrial or commercial operations.

In closing, OPG would like to thank the Board for the opportunity to comment on the Staff Report.