

DEMAND-SIDE MANAGEMENT AND DEMAND RESPONSE IN THE ONTARIO ENERGY SECTORS

Comments of the School Energy Coalition and the Ontario Public School Boards' Association on the Staff Report to the Board

Introduction

The Ontario Public School Boards' Association ("OPSBA") participated fully in the earlier stages of this consultation as a member of the Advisory Group. Since that time, OPSBA has joined with all of the other major stakeholders in the public education sector to form the School Energy Coalition (the "Coalition"). These comments on the Staff Report are being provided on behalf of both OPSBA and the Coalition.

The following headings are numbered to correspond with the respective sections of the Staff Report.

3.1 The Central Agency Model

We support the staff recommendation that a Central Agency be established to have responsibility for demand-side management in the Ontario energy sectors. In our view, the Central agency is the best way to ensure that:

- DSM programs are consistent throughout the province. This can be a major advantage for energy consumers like school boards, who would then be able to save money and increase uptake by developing collective/standard responses to those programs.
- DSM programs are available to all sectors within the energy consuming community.
- The customers of all utilities have access to DSM programs, notwithstanding that some utilities would not have the resources to offer those programs on their own.

The Central Agency does not have to be a large bureaucracy, and while it should have responsibility for DSM, it does not need to carry out all design and delivery functions itself. Instead, it should leverage the resources of individual utilities (see below) and the private sector to meet its DSM responsibility in the most efficient way possible.

Our conception, therefore, of the Central Agency is a separate Crown corporation that is structured as a “DSM utility”. This Crown corporation would collect revenues through “rates” charged to ratepayers (as proposed by staff, with which we agree - see below), and would spend that revenue prudently to obtain the maximum possible DSM results. While from time to time one could see the Central Agency developing new programs internally, in general it is more likely that new programs would be generated outside of the Central Agency (often by participating utilities), and delivered by local distribution companies, contractors, and other market participants and stakeholders.

The main roles of the Central Agency would, in this model, be:

- Reviewing and prioritizing new program proposals.
- Converting successful local programs into replicable programs that can be made available throughout the province.
- Contracting with third parties to deliver programs.
- Delivering mass-market marketing and communications programs where contact via local distributors is not appropriate or efficient.
- Monitoring the success of programs, and initiating or facilitating program improvements and/or re-prioritization.
- Reporting to the public and stakeholders on programs and results.
- Administering the pool of funding available for DSM initiatives.

Since the Central Agency would charge rates to energy users, those rates should be regulated by the Ontario Energy Board (so it would, therefore, not be an arm of the Board, but one of its regulated utilities). A key part of the Board’s role would – as with any rate case - be to review the plans, budgets and targets of the Central Agency to ensure that the rates were being spent prudently and efficiently to deliver cost-effective DSM consistent with the public interest.

3.2 The Role of The Transmitter and Distributor

Local Distribution Companies have the key direct relationship with the electricity consumer, and that relationship should not be wasted by shutting them out of DSM planning and delivery. Therefore, we agree with the Staff Report that transmitters and distributors should have a delivery role under the supervision of the Central Agency, and where appropriate in competition with private sector players.

However, we disagree with the Staff Report on two important items:

- **Program Design.** The relationship between the LDC and the customer is a two-way street. The LDC can use that relationship to enhance the deliverability of certain types of programs. It can also, though, use that relationship to identify DSM opportunities inherent in how customers use their energy, and therefore propose program designs. This is, incidentally, not a unique concept. Most successful franchise operations encourage their franchisees to look for opportunities to deliver products in a better way, by developing and testing new marketing plans, techniques for serving the customer, etc. When individual franchisees have a new method that works, the franchise companies then standardize the method and deliver it to all the franchisees. A similar approach is appropriate for DSM program design by local utilities.
- **LRAM.** We agree that, once a regulated Central Agency is created with DSM as its sole function, neither an SSM nor a DSMVA is required. On the other hand, we believe that an LRAM-type mechanism is an essential aspect of the new model. Utilities grow their businesses by increasing their throughput, whether it is electricity or natural gas. The Central Agency's role is to reduce throughput, so it is logically inconsistent with the utilities' goals. It is, of course, a duty of every utility to promote DSM, but it is unrealistic to think that utilities will be DSM-positive if successful DSM reduces their throughput, and therefore increases their unit costs (through reducing economies of scale) and increases rates. The LRAM-type mechanism makes the utility whole, and thus avoids any conflict between utility goals and Central Agency goals. The prospect of longer-term PBR rate regulation makes the case for an LRAM or similar mechanism stronger, as the Staff Report points out.

3.3 Gas vs. Electricity DSM

The Staff Report calls for initial implementation of the Central Agency for electricity DSM. When the Central Agency has gone through its growing pains, assumed to be three years, natural gas DSM would be added to its responsibilities.

While the commitment of Enbridge Gas Distribution to DSM, and its relative success as a result of that commitment, demonstrate that utility-driven DSM can be a good option, we ultimately agree with the Staff Report that both natural gas and electricity should be within the Central Agency, for two reasons:

- **Cost.** Even a committed utility is still, in its DSM function, taking on an area that is inconsistent with its normal business goals. The only way to get the sort of mindshare necessary to make DSM successful within the utility is to offer substantial financial incentives, such as the Enbridge SSM. A Central Agency avoids SSM costs, because its entire *raison d'être* is conservation.
- **Fuel Switching.** Sometimes the most effective DSM solution is to increase natural gas use and reduce electricity use (or vice versa, although that is less likely). It is difficult to design a system of utility-driven natural gas DSM that treats load

building as DSM, even when it is the most efficient solution. A Central Agency would be looking for the best overall DSM result, and fuel switching would be one approach available to it.

We are concerned, however, that deciding today for a changeover in three years would make the current natural gas DSM programs “lame duck” activities within the utilities. Given the fact that we cannot really afford to let DSM languish for three years during the transition period, we suggest that the Board defer consideration of whether responsibility for natural gas DSM should go to the Central Agency until later. In the meantime, the gas utilities would continue to have the responsibility to design and deliver these programs, and would have the opportunity to demonstrate that they should have a key role well into the future.

3.4 Conservation Funding

We support the recommendation of Staff that a charge be levied against consumers of energy to support DSM activities. This is, in essence, utility rates charged for the delivery of capacity and energy through conservation, and the Central Agency’s rates should be regulated by the Ontario Energy Board, just as any other utility charging monopoly rates to energy consumers.

We have two concerns about the specifics in the Staff Report:

- ***Cost Allocation and Rate Design.*** As with all costs charged to ratepayers, we believe that the DSM charge should follow cost incurrence principles. It therefore follows that a simple mil rate charged on all throughput will not necessarily be the right allocation. For example, in the case of electricity generation DSM programs reduce both energy use and generation capacity required. Where rates reflect a capacity vs. energy division, the cost of DSM should be borne based on a similar split. Similarly, some of the costs of the Central Agency will be fixed costs, and therefore some portion should be allocated to fixed monthly charges or similar rate mechanisms. It is our view that the allocation and design of the DSM rates should therefore be proposed by the Central Agency in its first rate case based on normal ratemaking principles. In doing so, the Central Agency must recognize the high importance of simplicity in that design exercise, and should expressly balance that goal with the goal of fairness (through cost incurrence).
- ***Self Generators.*** It is not clear to us that those generating their own power should be subject to the DSM rates. On the one hand, most self-generators implement their own DSM plans as part of their self-generation economics. On the other hand, it may be in the public interest to make some DSM programs available to self-generators, in which case if they have a similar benefit from the programs, they should share in the cost. It is our view that the Central Agency should be asked, in its first rate case, to come forward with an analysis of this issue, and a proposal for how to deal with it fairly.

4.1 Wholesale Demand Response

We support the Staff Report, and have no further comments.

4.2 Retail Demand Response

We support the Staff Report. In particular, we strongly advocate the introduction of pilot programs and demonstration projects for peak-shaving and related technologies, and we agree that the Central Agency should have primary responsibility for those activities.

5.1 Consumer Information and Communication

It would appear to us that one of the key responsibilities of the Central Agency is consumer information and communication. While it may in some cases use the facilities of local utilities to enhance its ability to communicate with ratepayers, the design of public information programs should be a high priority.

The Staff Report appears to contemplate that the Board will take a major role in this process. On this, we disagree with the recommendation of Staff. In our view, the communications function should be co-ordinated and led by the Central Agency. The Board adds more value in its role as regulator in this context.

Conclusion

The Staff Report, in conjunction with the detailed input from the Advisory Group, is an excellent basis from which the Board can develop its recommendations to the Minister. The School Energy Coalition has, in these comments, provided some suggested modifications of the Staff recommendations, but in general supports the direction and thrust of the Staff Report.