

February 9, 2004

Mr. Paul B. Pudge  
Assistant Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2601  
Toronto, Ontario M4P 1E4

Dear Mr. Pudge:

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

Thank you for the opportunity to comment on the Board Staff's paper on Demand Side Management and Demand Response (DSM/DR) initiatives in the Ontario energy market.

The Ontario Energy Board (OEB) Staff paper on Demand Side Management and Demand Response recommends a model which requires that a central agency be created to design and implement DSM/DR programs in Ontario for both electricity and natural gas. The Agency would begin by providing DSM/DR initiatives to the electricity sector but would, after a three year period, take on the responsibility for DSM/DR initiatives in the natural gas sector.

In summary, it continues to be the position of Union Gas that the natural gas industry is different from the electricity industry in a number of important ways and the management of DSM programs need not be identical for both sectors. Further, the company believes that the LDC model is the most efficient and effective way to design and deliver DSM. Finally, it is Union Gas's position that transferring DSM delivery to a central agency from a successful LDC model would cause inefficiencies and reduced market success. There is no reason to switch from a successful DSM model for the natural gas industry to an unproven central agency model.

**Differences between Electricity and Natural Gas Industries**

The natural gas industry is less fragmented than the electricity industry. In Ontario, most natural gas customers are served by two large local distribution companies (LDC's). In the natural gas industry, the LDCs have sole custody of the energy delivery relationship whereas in the electricity sector that relationship may be with either Hydro One or one of the many municipal electric utilities (MEU's). For customers of the natural gas LDC's, the supply and demand of energy clearly meet at the LDC. This allows for coordinated and effective DSM programs that are balanced with supply and infrastructure management.

The natural gas utilities have been successfully delivering DSM initiatives to the betterment of their customers for a number of years. The Board Staff's report does not suggest that the current gas utility-managed DSM framework is not working. We do not believe there is any compelling reason to require the gas utilities to cease designing and delivering DSM programs. These

programs are fully integrated into the utilities, staff are well trained and knowledgeable, and the ability to leverage the DSM funds with other activities makes it a cost effective means of delivering energy efficiency.

Natural gas LDCs are experienced marketing organizations -- they know their customers well. They are a trusted source of energy information for customers and have maintained the ability to promote effective energy solutions to their customers. Natural gas customers rely on the utility for this expertise and credibility, which are not transferable to others. The current electricity delivery market, being more fragmented, does not have the same centralized marketing expertise and cannot derive some of the efficiencies which are available with greater scope. Thus, natural gas LDCs are the best design and delivery option for natural gas DSM by virtue of their established market capability and their role as a trusted source of energy information with their customers.

The report states that LDCs can participate in DSM for least cost planning purposes without the benefit of any compensation or operating budget. Natural gas LDCs do not face the same kinds of infrastructure constraints that affect electricity LDCs. Demand side management for gas utilities would focus on seasonal reductions and changes in demand, while for electricity the daily peaks are of greater concern. Therefore, under the central agency model and with no compelling infrastructure motivation to undertake DSM, it is unlikely that a gas utility would initiate any DSM activity without at least compensation for lost revenues.

### **Transition of DSM to a central agency may not be successful**

The paper takes the position that programs can easily be transferred to a Central agency. Union maintains that this is not true.

The success of Union's programs is based on the strength of its customer relationships, its demonstrated ability to influence delivery partners, and its own depth of customer knowledge. These key success factors can not be transferred to a new central agency. It is arguable that a new entity with no brand, no market expertise and no leverage over independent businesses would take several years to develop some level of capability and may never develop the customer understanding which currently exists within the natural gas utilities.

It is also inappropriate to suggest that current DSM programs being run by gas utilities can be transferred to the central agency. The gas utilities have business relationships with delivery partners that are only partially focused on DSM. As such, the gas utilities would have to terminate that part of the relationship. The central agency would then need to establish new business relationships with those or other delivery partners based solely on the DSM program delivery rationale. There is no guarantee that this relationship will appeal to many of the natural gas industry's current partners.

### **Transferring DSM to a central agency will create inefficiencies in the market**

The two gas utilities in Ontario have a proven track record of delivering DSM programs and transferring this mandate to a central authority will:

- duplicate infrastructure (customer information systems etc) resulting in increased costs to deliver the programs

- eliminate the benefit knowledgeable gas utility staff can bring to the design and delivery of the programs, thus increasing the cost and decreasing the effectiveness of the programs.
- eliminate the leveraging of DSM funds with respect to other marketing initiatives, again increasing delivery costs

Gas utilities have proven that when DSM initiatives are integrated into other marketing activities, the funds available can be more effectively leveraged. The linkage between conservation decisions and other energy services decisions made by consumers can not and should not be divorced. It is not possible to have an effective DSM program when a separate central agency is controlling the way in which, for example, an energy efficient furnace is marketed, as compared to other furnaces on the market. Consumers seldom view the market in this way. That is, they do not separate the different elements of their purchase decision (economy, features, efficiency, etc). They look at these decisions in aggregate and rely on the advice of their energy providers to help guide them to make wise energy choices.

Additionally, natural gas LDCs operate in an environment where they must prioritize their activities and investments in order to obtain capital. The paper recommends that LDC's could bid competitively for delivery of central agency DSM activities but would not have access to any compensation for the reduced load nor any incentive structures. Under such circumstances and with no upside beyond the LDC's allowed rate of return, it is unlikely that LDC's would be inclined to participate.

In summary then, Union Gas believes the best approach to the design and delivery of successful DSM programs in the natural gas sector is to actively engage the expertise in the natural gas LDCs. The approach currently employed by the natural gas utilities has been effective in delivering real and significant levels of energy savings for customers. This approach capitalizes on the expertise of the companies and goes beyond the narrow scope of simple energy efficiency measures to deal with how energy decisions are made by customers and how these decisions affect energy infrastructure needs. For the reasons stated above we further believe that there is no compelling reason to treat the electricity and natural gas sectors in an identical fashion. Ontario's natural gas customers deserve nothing less if we are to move to a "culture of conservation".

I trust that the Board will consider Union's submission in its deliberations.

Yours truly,

M. Richard Birmingham, C.A.