

February 9, 2004

SAME DAY COURIER

Mr. Paul Pudge
Assistant Secretary
Ontario Energy Board
P.O Box 2319
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4

Dear Mr. Pudge:

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

We are pleased to comment on the Board staff report entitled Demand-Side Management (DSM) and Demand Response (DR) in the Ontario Energy Sectors. As requested, we have included nine paper copies and one electronic copy of this submission.

We have studied the report and find its recommendations to be well researched. However, we have serious concerns regarding the central premise of the recommendations; that a Central Agency ought to be established to take responsibility for the design and delivery of DSM and DR activities in Ontario's Energy Sectors.

The appeal of a Central Agency model is understandable, given the current state of fragmentation in the province's electricity distribution sector. It is inarguable that such a model would provide for more uniformity in the delivery of DSM and DR programmes across the province. We believe, however, that this benefit is far outweighed by a number of serious shortcomings of this model:

- As referred to in the staff report, assignment of DSM and DR responsibilities to one central authority can lead to a bureaucratic and costly delivery mechanism for energy management programmes. In fact, this model has been tested in Ontario before, with less than satisfactory results. From our perspective, Ontario Hydro's province-wide energy management initiatives of the early 1990's proved to be costly and marginally effective. There was also a lack of accountability for results. There is little reason to believe that a new central agency would be effective at avoiding these pitfalls.

Date: February 9, 2004
Addressee: Mr. Paul Pudge
Re: RP - 2003 - 0144 - Staff Report to the Board on Demand - Side
Management and Demand Response

Page 2

- A central agency model would not foster the competition in ideas and approaches to DSM and DR that could be achieved through the Utility Model. While this latter model would be less uniform, it could facilitate the testing and comparison of programmes across jurisdictions, resulting in greater innovation and effectiveness.
- The recommendation for a central agency model is partially based on concerns related to the current fragmented state of the electricity distribution sector. But instead of addressing the issue of utility fragmentation, the adoption of the central agency model may help perpetuate it by forfeiting an opportunity to assign new obligations to distributors to encourage consolidation.

It is our view that policy considerations for DSM and DR are inextricably linked to other key issues being studied by the Board and others. These issues include options for Standard Supply pricing, resource adequacy, and electricity distributor consolidation. We believe that all of these issues can and must be addressed in an integrated fashion.

The assignment of a Load Serving Entity (LSE) function to electricity distributors would, in our opinion, provide an effective framework to address all of these issues together. As LSEs, distributors would have an obligation to secure supply portfolios for all default customers. Under this model default customers would be provided with stable electricity prices, new supply would be developed as distributors assembled their supply portfolios, and utility consolidation would be encouraged due to the additional financial and operational resources required of distributors. These benefits of the LSE model are more fully explored in a position paper authored by the Distributors' Electricity Efficiency Policy (DEEP) group, a copy of which is enclosed. Veridian is a co-author of this report.

In addition to these benefits, the LSE model could be structured to efficiently expand the role of DSM and DR in meeting Ontario's energy needs. For example:

- Energy efficiency could be mandated as part of an LSE's supply portfolio, with economic incentives and disincentives to encourage distributors to meet and exceed targeted load reduction levels.
- The LSE obligation could be designed to incent a distributor to use DR programmes to curtail customer load at times of peak price levels, in order to manage the costs of its supply portfolio. Distributors are uniquely positioned to effectively deliver such programmes.
- New distributed generation resources would be developed as distributors assembled their default supply portfolios, thereby reducing distribution system losses and improving the efficiency of the distribution network.

Date: February 9, 2004
Addressee: Mr. Paul Pudge
Re: RP - 2003 - 0144 - Staff Report to the Board on Demand - Side
Management and Demand Response

Page 3

In summary, it is our view that DSM and DR should be addressed in concert with the issues of Standard Supply pricing, resource adequacy and distributor consolidation. Properly designed, the assignment of an LSE function to distributors will provide a framework that will move Ontario's electricity sector to a sustainable footing.

Thank you for the opportunity for comment on this important matter.

Yours truly,

George Armstrong
Manager of Regulatory Affairs and Key Projects

cc John Wiersma
Charlie Macaluso, Electricity Distributors' Association

attachment