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February 9, 2004

Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street 26<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
Attention: Paul Pudge, Assistant Board Secretary

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

Hydro Ottawa has reviewed the OEB staff report on Demand Side Management (DSM) and Demand Response (DR) and has the following comments.

**Implementation**

Hydro Ottawa acknowledges the challenges of implementing DSM and DR in Ontario as a result of the large number of distributors (LDCs). While Hydro Ottawa has sufficient size and resources to develop and manage its own programs, consistent programs across the province will be of benefit to customers with services in multiple jurisdictions. Therefore, Hydro Ottawa agrees that a coordinated approach for DSM and DR is the preferred option. This can be undertaken through the Central Agency proposed by OEB staff or through a Distributor's Agency, as proposed by the Electricity Distributor's Association. However, any agency that is set up should include programs not only for consumers but also for distributors to improve the effectiveness and efficiency of distribution systems.

**Funding**

The report proposes that DSM and DR initiatives be funded through a non-bypassable kilowatt-hour charge on all customer bills. The introduction of the debt retirement charge (DRC) created a significant influx of customer inquiries and complaints that distributors had to manage. Therefore, it is recommended that, if this kilowatt-hour DSM rate rider is implemented, it be incorporated into the wholesale market service charge already on consumer bills. However, this should be collected much like the DRC in that distributors will remit only the amounts collected from customers.

The goal of DSM is to reduce the need for electricity supply on a sustainable basis. Therefore, Hydro Ottawa recommends that funding for DSM and DR be provided to those projects that provide greatest overall payback. All consumers will share in the benefit of the lower electricity prices resulting from

reduced demand, therefore it is not important to have DSM programs for each class of customer if those programs for a particular class do not have the best payback i.e. a residential program with a long payback should not take precedence over a commercial or distributor program with a shorter payback, regardless of the source funding.

Furthermore, the diagram on page 26 of the staff report indicates that funding for DSM flows from the customer to distributors to the central agency. However, there is no indication that this source of capital will be available for distributors undertaking DSM or DR programs as described in section 3.2. With the current market rules, distributors do not benefit from implementing these programs, and given the current cashflow pressures on distributors, internal capital funding is not possible without sacrificing other capital programs for growth and reliability. Distributors should have access to the DSM capital provided that the payback of any proposed programs exceeds a set threshold.

It is not clear how the proposed funding described in the report relate to the announcement by the Minister of Energy that LDCs can apply for a distribution rate increase on March 1, 2005 provided that the monies are reinvested in demand management initiatives. Would the funding through the distribution rate increase be in addition to the kWh charge or instead of this charge?

Finally, Hydro Ottawa is concerned that no compensation is contemplated for distributors for lost revenue. The report indicates that since DSM would be undertaken by a central agency there would be no requirement to compensate distributors, but if programs were coordinated through an agency of distributors compensation for lost revenue would be required. The management of the DSM agency has no bearing on the impact to distributors of lost revenue. DSM is required because of a shortage of generation in the province to meet the growing demand, and to a lesser extent due to transmission constraints in particular jurisdictions. The distribution sector, for the most part, has sufficient capacity. Therefore, distributors should be held harmless from the DSM programs.

## **Role of Distributor**

Clearly it is the responsibility of distributors to implement DSM and DR programs that relate directly to the planning and optimizing of distribution systems. Hydro Ottawa is concerned by the statement that this has to be in equal competition with the private sector. As regulated companies, distributors have certain constraints and limitations that affect ability to operate on a level playing field with non-regulated companies. In addition, revenue metering is the “cash register” for distributors and should not be open to competition since this will add unnecessary complexities to an already highly complex marketplace.

Hydro Ottawa is concerned by the recommendation that distributors be “induced” to improve distribution loss factors since this inducement could be either in the form of penalties or rewards. It is therefore recommended that this be changed such that distributors be “rewarded” for reducing the distribution loss factor. The benefits could be shared by both the distributor and its customers.

## **Demand Response**

The best way to achieve the sought after results for both DSM and DR is to have the appropriate pricing signals for consumers combined with technology (such as interval meters) that allows consumers to benefit from changing their behaviour. The artificially low prices paid by consumers has compounded the supply problems faced by the province. Past experience has shown that time-of-use rates that vary by season or time of day are only effective if consumers see the direct benefit. Averaging the benefits across a customer class does not achieve the desired results. While billing systems were capable of applying time-of-use rates in the past, implementation has been considerably complicated by the new marketplace. Distributors need a significant lead time if any further rate structure changes are contemplated and the costs of any changes should be recoverable.

## **Customer Communications**

Hydro Ottawa feels that communicating detailed information on technical topics such as DSM and DR should not be the role of the regulator. The expertise will rest with whatever coordinating agency or agencies are formed, therefore the communication should come from the same location.

Thank-you for this opportunity to provide comments on the OEB staff report on DSM and DR. If further information is required, please contact the undersigned at 613-738-5499 ext 527 or [lynneanderson@hydroottawa.com](mailto:lynneanderson@hydroottawa.com).

Yours truly,

Lynne Anderson  
Manager, Regulatory Affairs