

Ontario Energy Board

*2006 Electricity Distribution Rates:*

*Initial Consultation on Issues for Generic Methodology Process*

Ontario Science Centre

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*Speaking Notes*

*For*

*Jack Gibbons*

*Pollution Probe*

Today the Ontario Energy Board (OEB) is consulting stakeholders on the regulatory framework for establishing rates for Ontario's electricity utilities commencing May 1, 2006.

Why are we talking about 2006 rates when the Board has still not established a regulatory framework for the electric demand side management (DSM) or energy conservation and efficiency programmes that are to commence on March 1, 2005?

More than 7 months ago, on November 25, 2003, Minister Duncan announced that Ontario's electric utilities can raise their rates by \$225 million, effective March 1, 2005, to finance their initial energy conservation programmes. If the electric utilities' DSM programmes are as cost-effective as those of Enbridge Gas Distribution they will reduce the bills of their customers by \$1.2 billion to \$1.8 billion or more.

March 1, 2005 is less than 8 months away and it takes time to develop cost-effective DSM programmes. However Ontario's electric utilities cannot develop DSM programmes if they don't know what types of DSM expenditures will be deemed prudent by the OEB for cost-recovery from their ratepayers. Why after 7 months has the OEB still not established a regulatory framework for electric DSM? Why are we considering the rules for 2006 rates when the rules for next year's DSM programmes are still not established?

Key DSM questions that must be answered by the OEB now are:

- What test will be used by the OEB to establish the cost-effectiveness of DSM programmes? Will it be the Total Resource Cost Test that is the standard for Ontario gas DSM and electric DSM throughout North America? Or will it be the utility cost test, a.k.a. the hardly-any-winners-test, as advocated by Board Staff?
- Will TV or newspaper ads that advocate conservation as sacrifice and help to create a political backlash against energy efficiency be deemed to be prudent DSM expenditures?
- Will DSM expenditures be limited to utility O & M expenses on the customers' side of the meter as is the case with Enbridge Gas Distribution and Union Gas? Or will expenditures to reduce the utility's operating costs (e.g., more efficient transformers) be deemed to be DSM?
- What electricity supply avoided costs will be used to evaluate the cost-effectiveness of DSM?
- Will the cost-effectiveness of DSM expenditures be subject to an independent audit? Who will appoint the independent auditor?
- Will the electric utilities, like Enbridge and Union Gas, have Lost Revenue Adjust Mechanisms?

- Will the electric utilities', like Enbridge, be eligible for profit bonuses that are directly linked to the bill savings that their DSM programmes provide for their customers?
- On December 12, 2003 the OEB's Advisory Group on Demand-Side Management and Demand Response in Ontario issued its *Report*. Chapter 4 of the *Report*, "Ontario Energy Board/Wires Companies DSM Framework" provides a pragmatic framework for electric DSM which answers all of the questions Pollution Probe has raised. It could have been implemented 6 months ago. Why wasn't it?
- According to page 6 of the Board's Discussion Paper for today's consultation:

"While the treatment of Demand-Side Management/demand response initiatives is recognized as potentially impacting on the setting of 2006 distribution rates, it may be expected that the treatment is better dealt with outside of this generic process."
- Why does the OEB always shunt electric DSM to the back of the bus?