

February 9, 2004

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, Ontario, Canada
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Attention: Mr. Paul Pudge
Assistant Board Secretary

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

Dear Mr. Pudge:

EPCOR Merchant and Capital Inc. (EMC) appreciate the opportunity to assist the Board through our participation as a stakeholder in the Board's RP-2003-0144 consultation process. We have read the Staff Report and offer the following comments on the Staff's recommendations:

- 1) *A hybrid framework using both market-based and public-policy approaches should deliver demand-side management (DSM) and demand response (DR) activities in Ontario's energy markets.*
 - Agreed - Preferably with more emphasis on a market based competitive model. Public policy is required to establish framework.

- 2) *A Central Agency should be responsible for delivery of DSM and DR activities in Ontario's energy sectors.*
 - Agreed – A separate Central Agency would be best positioned to manage programs, funding and monitoring/ verification criteria. EMC believes that the Central Agency should leave it to competitive forces to develop creative customer oriented DSM solutions. Our preference is a highly competitive Central Agency model that encourages competition amongst various parties that would be measured on actual savings; permanence, cost efficiency and innovation verse other competitive proposals.
 - EMC is strongly opposed the approach of having DSM/DR designed, developed and delivered through the 93 separate LDC's. We believe this approach is

inefficient and will create market confusion due to inconsistencies between LDC programs. We also believe that most LDC's have little or no expertise in DSM/DR. For the LDC's that do, this expertise resides in their competitive retail affiliate, which should be encouraged to participate, in competition with other private sector providers.

- 3) *The Ministry of Energy, the Independent Electricity Market Operator (IMO) and the Ontario Energy Board should work together to coordinate DSM and DR activities.*
- *The Ministry would be responsible for setting over-arching objectives for DSM and DR.*
 - *Where necessary, the IMO would make changes in the Market*
 - *Rules to implement DR, and the Board would change regulatory instruments to facilitate DSM and DR activity. Both organizations would continue to carry out their legislated objectives.*

➤ *Agreed.*

- 4) *Transmitters and distributors should be allowed to act as delivery agents of DSM/DR activities for least-cost planning and/or optimizing their distribution systems. This might include investing in DSM/DR-enabling technologies such as meters, controllers, communications, and/or gateway services. In doing so, distributors should comply with Central Agency protocols and compete equally with private sector players, without provision for DSM variance account, lost revenue adjustment mechanism, or shared savings mechanism.*

➤ *Agreed*

- 5) *The Board should put in place regulatory mechanisms to induce gas distributors, electricity transmitters and electricity distributors to reduce distribution system losses.*

➤ *Agreed – We also suggest the LDC's use DSM/ DR as a means of capital deferral for system upgrades where economics permit.*

- 6) *The recommended framework should replace the current gas framework within three years.*

➤ *Agreed – The current Gas DSM framework is inconsistent provincially, between Union Gas and Enbridge.*

- 7) *Electricity DSM and some retail DR initiatives should be funded by all electricity consumers through a transparent, non-bypassable consumption charge (kWh). Gas DSM initiatives should also be funded by a transparent consumption charge (m3).*
- *This charge would be levied on all consumers, including self generation in electricity.*

- *The Central Agency should be responsible for setting the rate applied to electricity and gas consumption annually, subject to review by a regulatory body.*
 - Agreed – It is our understanding that this has already set in motion by the government, that LDC's are to collect funds from all rate payers to fund future DSM activities.
- 8) *In consultation with stakeholders, the IMO should design and develop economic DR to be put in place for 3-5 years as a transitional measure.*
 - Partially Agree – The IMO needs to be actively involved in any DR initiative. We see the Central Agency's playing a key role in encourage competitive creative solutions from various market participants. Overcoming the first cost retrofits and defining the economic benefits will be critical for most retail participants, along with defining appropriate market price signals.
- 9) *Further, the IMO should revise the Market Rules to facilitate load aggregation (e.g., statistical measurement, metering, and settlement requirements).*
 - Agreed – Necessary for the success of DR programs at the retail level.
- 10) *No one player should be mandated to play the role of load aggregator.*
 - Agreed – Should be a competitive process.
- 11) *The Board is currently working on interim and long-term Standard Supply Service (SSS) pricing strategies. These could include peak and off-peak time-differentiated SSS prices altered seasonally.*
 - Agreed – Necessary for DSM to succeed.
- 12) *Until May 1, 2006, time-differentiated and seasonally adjusted commodity prices could apply to designated consumers.*
 - Agreed.
- 13) *The agencies involved in conservation in Ontario (the government, the Central Agency, the IMO, and the Board), should coordinate consumer education plans to ensure consistent messages and avoid duplication.*
 - Agreed.
- 14) *To help consumers understand their energy choices and the consequences of those choices in the Ontario market, the Board should design, develop and/or deliver*

information to consumers related to energy conservation, energy efficiency, load management and cleaner sources of energy.

➤ Agreed.

As a participating stakeholder EPCOR Merchant and Capital L.P. is pleased to have had the opportunity to provide our comments on the Staff's recommendations. If we can be of further assistance, please feel free to contact us.

Sincerely,

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