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BY COURIER

Elizabeth A. Mills
Director, Regulatory Affairs
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February 9, 2004

Dear Elizabeth A. Mills,

**Re: Enersource Corporation Response to OEB Staff Report to the Board-
File Number – RP-2003-0144
Demand-Side Management and Demand Response in
the Ontario Energy Sectors**

On behalf of Enersource Corporation I want to thank you for the opportunity to provide comments on the recently released Staff Report to the Board on Demand-Side Management and Demand-Response in the Ontario Energy Sectors (the “Staff Report”).

During the past few months Enersource has been actively involved in analyzing the current state of Ontario’s electricity sector and we have made a comprehensive series of recommendations to the Electricity Conservation and Supply Task Force (the “Task Force”), Ontario Energy Board (the “Board”) and the Ontario Ministry of Energy (the “Ministry or the Minister”).

Specifically in the areas of Demand-Side Management (“DSM”) and Demand-Response (“DR”) (DSM and DR collectively referred to as “conservation”) we are committed to providing the leadership and resources necessary to promote and build a conservation culture within Ontario. Our recent report, Seven Steps To An Energy Efficient Ontario (the “Seven Steps Document”), describes our vision and recommendations in this regard.

We were very encouraged by the Board’s consultation process to gain input from stakeholders on how to implement conservation in Ontario. Enersource was one of the stakeholders who made presentations during this consultation process.

However, the Staff Report to the Board, received by us on January 23, 2004, is inconsistent with key recommendations that have been made by Enersource and therefore we cannot support or endorse the assumptions, recommendations or conclusions presented. Further, we find that a number of the recommendations in the Staff Report are inconsistent with those presented in the Task Force report, which has been supported by all participating stakeholders, including Enersource.

Specifically, Enersource cannot endorse the diminished role proposed for Ontario's local distribution companies ("LDCs"), the implied financial penalties to be suffered by LDCs should the recommendations of the Staff Report be implemented, and the overall lack of engagement of local resources to build and promote a conservation culture within Ontario. Fundamentally, we believe strongly, that if the recommendations in the Staff Report are implemented, Ontario will not achieve the conservation objectives it so desperately needs in order to keep the lights on in this province.

Specifically we wish to provide comments on three areas; responsibilities of the central agency, lost revenue recovery and the method of billing of the systems benefit charge.

Enersource Recommendations and Comments:

1. Responsibilities of the Central Agency:

A central agency to be the champion for building a conservation culture within Ontario is essential. The central agency should provide the overarching framework for conservation in Ontario and, while being ultimately responsible for implementing DSM and DR programs, it must have an obligation to discharge that obligation through agencies like LDCs and others who are much closer to the end use customers.

The Staff Report has recommended a central agency take responsibility for conservation, consistent with Enersource recommendations, but has defined a considerably broader role for this agency than those envisaged in the recent recommendations of the Task Force and Enersource's Seven Steps document.

Enersource supports the following specific recommendation made by the Task Force; "A conservation champion should be created to monitor and coordinate conservation activities and serve as the focal point for a conservation culture in Ontario." We understand, given our participation on the Task Force, that there was much discussion regarding a broader role for the central agency, and that the members of the Task Force unanimously supported limiting that role, deferring the role of implementation to others.

The role envisioned by the Staff Report places too much emphasis on this new agency providing direct delivery of conservation programs, ignoring the central role the LDCs or LSEs should play.

Further, the Task Force makes this observation, "Local distribution companies, which in most cases have the strong relationship with the customer, could act as facilitators to develop leads and subcontract detailed implementation to the private sector."

Enersource believes that a central agency is essential and we recommend that the central agency provide the overarching policy directives, goals and objectives, provide regulatory support, coordinate the activities of private and public sector agents, deploy cross-boundary and province wide initiatives, provide necessary research and development, provide consumer education, establish standards and incentives. The central agency, with this scope and mandate would assume ultimate responsibility for achieving conservation objectives only through LDCs and other such agencies better suited to implement conservation.

LDCs and/or LSEs when created, will be essential for delivery of conservation programs within their service areas, either independently or through private sector providers, providing monitoring and reporting, communication and education programs, providing a convenient and easily accessible point of contact for consumers, providing metering and other technologies, and establishing rates that incent DSM and DR.

2. Lost Revenue Recovery:

A mechanism that provides LDCs with the ability to be compensated for lost revenue is essential. LDCs should be compensated whenever there is a revenue loss resulting from conservation or when they invest in DSM or DR or work with private sector companies to provide facilitation of DSM and / or DR.

The recommendations presented in the Staff Report neglect the financial realities faced by LDCs as a consequence of reduced electricity consumption based on current rate structure and design. The absence of any mechanism to link success in reducing consumption to the profitability of LDCs will eventually lead to failure of conservation initiatives. Furthermore it will exacerbate the current financial viability of LDCs. This is clearly not the desired effect and Enersource recommends that any DSM and DR plan include a mechanism for lost revenue recovery.

Enersource estimates that for each 1% reduction in consumption within its territory, the resulting impact on annual distribution revenue will be approximately \$1 million. This is clearly a disincentive to promote conservation at a time when what is needed is a coordinated system of incentives for all market participants.

LDCs must not be put in a position, where their support for fundamentally sound and proper initiatives such as conservation and distributed generation for that matter, hurts their core business' financial results. There is a fundamental need to design a mechanism that achieves both the objective of conservation and linking successful conservation to the overall profitability/viability of LDCs.

Furthermore, consumers can also benefit from such a mechanism as those who participate in DSM realize greater savings in energy costs than any resulting increase in distribution rates. We would be supportive of a mechanism whereby LDC's earnings are variable based on their success in achieving conservation targets, and that given the relative costs of energy versus distribution charges, the incremental returns to LDCs will be out weighed by the positive impacts in reduced energy and capacity charges to consumers. This is a classic win-win-win scenario that has been ignored by the Staff Report.

3. Systems Benefit Charge:

Funding of conservation initiatives requires financial participation from all consumers. All consumers should contribute, through a systems benefit charge, to a fund that pays for conservation in Ontario. This fund should be administered by a central agency and collected, through a relatively small increment rolled in to the IMO's uplift, then paid to the central agency for distribution.

Enersource agrees with the Staff Report recommendations that a Systems Benefit Charge be established and administered by a central agency. This is consistent with recommendations made by Enersource in its Seven Steps document. This fee should apply equally to all consumers, as all users of an electricity system benefit from measures to enhance reliability, avoid generation costs and mitigate environmental impacts. Such charges are used in other jurisdictions including about twenty American states.

Enersource recommends that such a charge be calculated and be made a component of the existing Uplift Charge currently established by the IMO, collected in the wholesale settlements process, then paid on a regular basis to the central agency. Enersource does not recommend adding this charge as another line item on customer's bills, on either a wholesale or retail basis. Consumer opinion already demonstrates that there is confusion and concern about the number of line items on their bills.

In closing, given the significant experience of our team at Enersource, we believe very strongly that if implemented, the recommendations of the Staff Report will be a significant impediment in achieving the required conservation objectives, so important to Ontario's future. We ask that you carefully review not only our comments, but also those of other key industry stakeholders we have consulted with during this process, as you determine the optimum plan to move Ontario forward in this fundamentally important area.

Thank you again for an opportunity to provide feedback on the Staff Report. We would welcome an opportunity to provide further information before you make your recommendations to the Minister. If at any time we can be of assistance or answer questions please do not hesitate to contact me.

Sincerely,

Christopher Buckler
Vice President
Customer Service and Regulatory Affairs