ONTARIO SUSTAINABLE ENERGY ASSOCIATION'S COMMENTS ON PACIFIC ECONOMICS GROUP'S PAPER: *REVIEW OF DISTRIBUTION REVENUE DECOUPLING MECHANISMS*

BACKGROUND

The Ontario Sustainable Energy Association (OSEA) is pleased to have this opportunity to comment on the matter of distribution revenue decoupling. We are a province-wide, member-based, non-profit organization representing private citizens, cooperatives, farmers, First Nations, businesses, institutions and municipalities. OSEA's vision is that every Ontarian becomes a conserver and generator of sustainable energy either through a household or through a local community owned business, contributing to the transition to 100% sustainable energy. As a founding member of the Green Energy Act Alliance (GEAA) that set the stage for the government's development and passage of the *Green Energy and Green Economy Act,* we defined conservation as*:*

"Any measure that reduces a customer's overall demand for energy and/or a customer's demand for purchased energy. Specifically:

- *energy efficiency;*
- *behavioral and operational changes, including application of benchmarking, interval meters or "smart" control systems;*
- *load management -- interruptible and dispatchable loads, dual fuel applications, thermal storage, and demand response;*
- *fuel switching which reduces the total system energy for a given end-use particularly with respect to the following:*
  - *GeoExchange systems which are also referred to as earth energy systems, or geothermal heat pump systems. This heat 'exchange' between the ground and the building is accomplished by using pump and compressor technology.*
  - *Clean energy systems which make use of wasted energy such as: combined heat and power; local generation that uses presently wasted energy from industrial plants; micro grids within local distribution companies, including private wires and pipes in local geographic areas; and recycled exhaust heat from gas pipeline compressor stations."*

Further, we support the following key conservation elements that established the GEAA's position and targets for conservation:

- A mandated commitment to a continuous improvement approach to conservation with a minimum 2.5% annual (compounding) reduction in energy resource needs from 2011 until 2027.
- Energy pricing that reflects its true cost and provides signals to consumers to manage their energy demand and consumption.
- Priority for vulnerable consumers (including relevant industrial users) to reduce their energy burden through conservation, bill assistance, innovative utility policies and stronger consumer protection.

It is from this perspective that OSEA offers our comments. We understand there are elements of decoupling which relate more to utility operations, regulatory approaches and market conditions that will need to be balanced to ensure proper functioning of the regulatory framework, however such issues are outside of OSEA's interest. Accordingly, our comments focus on the elements of revenue decoupling that relates most to our member's interest in achieving conservation objectives.

COMMENTS

The format of these comments will follow the questions posed by Board Staff in the letter dated March 22, 2010.

1. *In light of developments in metering, CDM and demand side management ("DSM"), among possible others, is the implementation of further or modified revenue decoupling mechanisms for electricity and/or gas distributors warranted at this time and if so, why? For example, is the Board's current Lost Revenue Adjustment Mechanism adequate in light of the contemplated introduction of CDM targets for all electricity distributors in the Province?*

With respect to both **natural gas and electricity distributors**, OSEA supports the notion that decoupling should address the impact of fuel switching (including oil, propane, and transportation fuels), high efficiency district energy, high efficiency cogeneration and the adoption of renewable energy sources such solar thermal, solar thermal water heating, ground heat pumps, energy storage which have commensurate value with conservation and energy efficiency with respect DSM/CDM.

OSEA Recommendation: Fuel switching, district energy, combined heat/power and renewable energy applications other than those which generate electricity should be included in the overall basket of options for customers and communities and their revenue impacts addressed in decoupling to support conservation.

With respect to the **natural gas distributors**, it is OSEA's understanding that the combination of a lost revenue adjustment mechanism (LRAM), a shared savings mechanism (SSM), a demand management variance account (DSMVA) and declining

average use trackers which are currently part of their DSM framework, approaches the notion of partial decoupling described in the Pacific Economics Group (PEG) report. It is OSEA's view that the proper design and use of these features is sufficient to encourage them to pursue DSM. OSEA has no views on additional decoupling elements provided they do not decrease the incentive to pursue DSM.

OSEA Recommendation: No changes are required to the type of decoupling elements of the natural gas distributors to encourage conservation.

With respect to **electricity distributors**, LRAM alone will not provide sufficient protection against lost revenues from conservation. Electricity distributor conservation is but one factor that needs to be considered. While the government has indicated that it will be introducing targets for electricity distributors, the draft IPSP also estimated that 65% of the long term electricity conservation target (a minimum of 6300 MW by 2025 in addition to the natural conservation already occurring in the market place) would come from higher codes and standards[1]. Furthermore many other parties, including governments of all levels, trade associations and non-government organizations are active in encouraging energy conservation, energy efficiency and climate change mitigation, all of which will affect the revenue of electric distributors.

OSEA Recommendation: Any decoupling in the electricity sector must address all of these impacts to be effective in ensuring that electricity distributors are encouraged to pursue conservation. Again, OSEA has no views on additional decoupling elements provided they do not decrease the incentive to pursue DSM.

With respect to **electricity distributors**, the Ontario Power Authority demand response programs and the IESO's emergency demand response programs will also affect their revenues but far less than conservation itself.

OSEA Recommendation: Decoupling for electricity distributors should reflect the (albeit) relatively less impact of demand response programs on its revenues.

With respect to both natural gas and electricity distributors, OSEA is concerned that decoupling alone is not sufficient to address needs of vulnerable customers such as low income consumers, First Nation's communities and residents in the north. Also included would be consumers without access to natural gas who must rely on other fuels.

[1] The OPA is relying on codes and standards to deliver energy efficiency that will achieve almost 65% of the 2025 Conservation peak demand reduction target. EB-2007-0707, Exhibit D, Tab 4, Schedule 1, Page 30 of 58

Additional mechanisms, which OSEA understands will be covered in EB-2007-0346, will be required to address these customers with additional needs for conservation.

OSEA Recommendation: The Board should not consider decoupling sufficient to ensure vulnerable customer groups are included in gas and electricity programs.

2. *What factors should be considered when assessing the suitability of Ontario's current mechanisms and of alternative approaches? Are any of these factors more or less important than others? If so, why?*

   OSEA agrees with PEG that relevant criteria for choosing between decoupling approaches include the success of the approach in securing the main advantages of decoupling: efficient regulation, attrition relief, and the removal of financial disincentives for CDM/DSM provided that the breadth and depth of OSEA's definition of conservation is considered and, at least, elements associated with fuel switching are neutral and but do not limit the special considerations for vulnerable customers. OSEA also agrees that that the other repercussions identified by PEG of decoupling methods should also be considered.

3. *What, if any, are the implications of the wide-spread deployment of smart meters for the Board's approach to revenue decoupling?*

   With respect to **electricity distributors**, the deployment of smart meters means that pursuing decoupling by adopting a straight fixed variable (SFV) pricing regime is totally inappropriate. Ontario's investment in smart metering is just beginning to payoff and efforts should be made to make full use of smart metering for innovative ratemaking beyond the time of use plan currently in place.

   OSEA Recommendation: A straight fixed variable (SFV) pricing regime is totally inappropriate given Ontario's green energy orientation and its positive engagement of its distribution utilities in delivering on those objectives.

   OSEA Recommendation: Ontario's implementation of time of use rates needs to be accompanied by bill assistance and conservation targeted at low income and other vulnerable customers.

   With respect to **electricity distributors,** the Board should be concerned about the current methodology for setting the Global Adjustment in customer billing. In our view, it defies the fundamental spirit of the rate making principles that have been the hallmark of regulation since the Board was created, and flies in the face of the new objectives given to the Board under the *Green Energy and Green Economy Act*. Equal allocation across every kWh on a "24 X 7" basis, fails to reflect the load shape of the generation which is not dispatchable and it also fails to allocate the full cost of gas

peaking plants to peak prices, again diluting the price signal to customers. The *Green Energy and Green Economy Act* provides the legal framework to permit more transparent and varied allocation.[2]

OSEA Recommendation: The Board should strive to ensure that all costs associated with the commodity be embedded in commodity prices and allocated to correct customer classes and according to its time of use.

With respect to **electricity distributors,** the benefits of smart metering[3] extend far beyond the time of use pricing and include.

- Measure and collect energy usage information to support billing of customers on pricing plans.
- Collection and measurement of energy usage to accommodate changes to the pricing period definitions, and the number of pricing periods.
- Providing information to allow the customers to understand their energy usage.
- Support sending signals to customer owned equipment to allow for automatic response to price changes.
- Support utility customer service departments for bill inquiries, starting and stopping of service, single call outage verification, and customer bill date choice.
- Eliminate the need for estimated bills.
- Lower unaccounted for energy.
- Outage management, including outage detection, outage mapping, and outage restoration.
- Asset management, including sizing of distribution equipment such as transformers, feeder lines, substations.

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[2] (3) Sub clauses 114 (1.3) (f) (i) and (ii) of the Act are repealed and the following substituted: (i) prescribing methods for determining the amounts of adjustments under subsection 25.33 (1), the classes of market participants and consumers to whom those adjustments apply, the time periods to which the adjustments apply and the time periods within which the adjustments must or may be made and the manner in which the amounts are paid to generators, distributors, the OPA and the Financial Corporation, (ii) prescribing adjustments that must or may be made by distributors or retailers with respect to classes of consumers or other distributors or retailers, methods for determining the amount of the adjustments, the time periods to which the adjustments apply and the time periods within which the adjustments must or may be made and the manner in which the amounts are paid to generators, distributors, the OPA and the Financial Corporation, Green Energy and Green Economy Act, Section 13, paragraph (3)

[3] All of these use cases listed above are supported by research into the benefits provided by advanced metering and demand response by surveying North American utilities within the last year by UtiliPoint®.

- Asset management of meters.
- Supports remote connect/disconnect.
- Improve Load forecasting.
- Support pre-pay metering.
- Improve power quality.
- Improve system reliability.
- Reduced cost of energy procurement.
- Avoided distribution costs.
- Avoided costs of new peaking plants.
- Avoided transmission investment.
- Lower regional energy costs.
- Reduce local congestion.
- Increase spot market sales.
- Assist in vegetation management to identify problems that might lead to future outages.
- Verification of load reduction during demand response event.
- Balance loads.

OSEA Recommendation: The Board should examine the full range of features that smart metering can provide to assist the cost structure of the electricity supply chain in Ontario. Smart metering should also be extended to gas and water services.

4. *What scope for further or modified revenue decoupling might be appropriate? For example, should the impact of all variances from forecast in commodity demand be eliminated regardless of the cause (i.e., distributor-provided CDM/DSM programs, other CDM/DSM programs, the economy, weather, customer growth, etc.)? Why or why not?*

   OSEA supports any decoupling which encourages distribution companies to pursue conservation. As stated above all variance from forecasts associated with conservation should be included in customer billing. Currently forecasts include some of the impacts of non distribution DSM/CDM, but a distributor should not be penalized for non forecasted changes.

5. *Are there any alternative approaches, beyond those identified in the PEG Report, which better address revenue erosion due to changes in consumption? What are the costs, benefits and implications of implementing the alternative approach?*

Consistent with OSEA's concern for vulnerable customers, and recognizing that recessions, industrial restructuring such as the loss of an industry in a one industry town, and higher than normal unemployment rates on a geographic region might require special consideration with respect to revenues for seriously affected portions of a distributor's service territory.

6. *Is there a preferred approach (or elements of an approach) and if so, what are the important implementation matters that must be considered? What are the costs, benefits and implications of implementing the preferred approach or of refraining from doing so?*

With respect to **natural gas distributors**, no change is required.

With respect to **electricity distributors**, OSEA supports a decoupling true up plan with a revenue adjustment mechanism consisting of a "revenue per customer" tracker, which tracks variances from forecast monthly and holds them in a variance account with an annual true up.

With respect to **electricity distributors**, the Board should consider implementation matters within the broader context of the significant changes that The Green Energy and Green Economy is having on the electricity sector.

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