

Ontario Energy Board



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Report of the Board

Low-Income Energy Assistance Program

March 10, 2009

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1 Introduction

In July of 2008, the Ontario Energy Board (the “Board”) initiated a consultation to examine issues associated with low-income energy consumers in relation to their use of natural gas and electricity. The purpose of the consultation was to assist the Board in gaining a better understanding of those issues and in considering the need for, and nature of, measures that could address the challenges facing low-income energy consumers in Ontario.

The initial stage of the consultation was a stakeholder conference during which interested parties made presentations on a variety of energy issues of particular interest to low-income energy consumers. Participants were then invited to file written comments reflecting their views on those issues.

During the consultation, stakeholders reported that affordability is a problem for an increasing number of consumers due to rising energy prices, and changes to commodity pricing to reflect the true cost of power. Stakeholders also expressed a desire for more consistent treatment of low-income energy consumers across the province, regardless of where they live, the fuels they use or the distributor serving them.

The recent downturn in the economy and the rising cost of energy make more urgent the establishment of clear policies respecting the role of natural gas and electricity distributors with respect to their low-income energy consumers.

The Board believes it is important that there be a comprehensive and province-wide approach to assisting low-income energy consumers. In the Board’s view, assistance to low-income energy consumers is an important element of the service that should be provided by regulated distributors in carrying out their responsibilities. It is in the interests not only of low-income energy consumers, but also for all ratepayers who may,

for example, benefit from the more efficient management of arrears, bad debts and disconnections.

This Report sets out the Board's policies for implementation of a "Low-Income Energy Assistance Program", or "LEAP". LEAP has three components: (1) temporary financial assistance for low-income energy consumers in need; (2) the benefit of access to more flexible customer service rules on matters such as bill payment and disconnection notice periods; and (3) targeted conservation and demand management programs. With respect to the financial assistance component, LEAP builds on the "Winter Warmth" programs in which a number of distributors already successfully participate.

The Board acknowledges that LEAP alone is not intended to address the broader problem of poverty in Ontario, or even that of energy poverty. Energy costs alone are not the only burden faced by low-income households. However, the Board believes that its framework will provide for some relief in response to affordability issues, and will contribute in a significant and important way to the existing landscape of assistance for low-income energy consumers in Ontario.

Attached as an Appendix to this Report is a Staff Report to the Board that sets out background information pertaining to this consultation, a summary of stakeholder comments made during the consultation, the experience in other jurisdictions and staff's analysis of the issues. In developing its policy for low-income energy consumers described in this Report, the Board has been assisted by staff's analysis and the comments made by stakeholders throughout this consultation. This Report of the Board does not reiterate the staff analysis or stakeholder comments, but rather serves to articulate the policy framework the Board believes to be appropriate to assist in addressing the particular needs of low-income energy consumers.

The Board also looks forward to comments from stakeholders with respect to implementation of LEAP.

2 Guiding Principles

Based on comments received during this consultation, the Board determined that the following were appropriate principles to guide it in developing policies regarding low-income energy consumers, and in particular policies relating to financial assistance:

- **Emergency funding available to low-income energy consumers should be increased.** While a number of distributors already provide some emergency assistance funding, it seems clear that the level of funding that is currently available can be increased without undue cross-subsidization. Increased funding should ensure that a greater number of low-income energy consumers can receive assistance.
- **Funding should be accessible on a province-wide basis.** Low-income energy consumers reside in all areas of the province, and should not miss out on assistance based solely on the service or franchise area in which they find themselves. All distributors should therefore establish a fund, to be recovered through distribution rates, to provide emergency assistance to low-income energy consumers.
- **Funding should be available to both electricity and natural gas consumers.** Low-income energy consumers may require assistance with electricity costs, natural gas costs, or both. As such, funding should be available in relation to both.
- **Distributors should develop partnerships with social service agencies.** These partnerships provide an opportunity to realize important synergies by combining the resources of a distributor with the community knowledge and expertise of applicable social service agencies.
- **Eligibility for the assistance program should be based on need, as determined by a social service agency.** Income level alone may be an adequate criterion in relation to some non-emergency forms of assistance that may be available to low-

income energy consumers from government and other sources. However, it is important in the context of distributor-funded assistance that low-income energy consumers be eligible for assistance based on need, as determined by a distributor's social service agency partner.

- **The assistance program should not be overly costly or complicated to administer.** Some of the benefits of implementing assistance programs for low-income energy consumers may be reduced or lost if the administration costs to the distributor are disproportionately high. Two elements are important in relation to the costs of administration: the regulatory processes for reporting and for obtaining cost recovery should not be overly burdensome; and, a social service agency partner should carry out much of the program's administration.
- **The assistance program should result in more effective and efficient handling of arrears management and disconnection.** Addressing the individual needs of low-income energy consumers in need of temporary assistance can consume significant resources of the distributor. A comprehensive approach which engages community resources offers a more efficient way to address these needs. Distributors can facilitate the management of payment obligations by low-income energy consumers through various service provisions. These service provisions will assist low-income energy consumers directly and will benefit all ratepayers by reducing the costs associated with bad debt and disconnections.

It is important to recognize that the application of these guiding principles in the determination of policies for low-income energy consumers does not occur in a vacuum. Rather, they are considered in light of, and in terms of their effect on, the principles applicable to the setting of distributor rates as discussed in the next section of this Report.

3 Low-Income Assistance through Rates

In considering what form of assistance should be available to low-income energy consumers, the Board considered the creation of low-income rates. There are two approaches the Board could take to modify rates so as to assist low-income energy consumers – changing rate design or creating a group of low-income ratepayers.

Proposals for low-income rate design can take various forms including inverted block rates, lifeline rates, or changes to time-of-use commodity rates which consider the load characteristics of low-income energy consumers. Rates which are designed primarily for the purpose of accommodating different levels of income are likely to result in distorted or even perverse price signals. The Board believes that it is important that the commodity price continue to generally reflect the true cost of the energy used by the customer and that distribution rates continue to reflect overall costs. This is particularly important in the electricity sector as time-of-use pricing becomes more widespread.

With respect to inverted block rates or lifeline rates, the Board is not convinced that such a rate structure will assist low-income electricity consumers. This kind of structure assumes a correlation between low-income and low consumption, which has not been established. Information provided by participants in this consultation suggests that low-income energy consumers generally live in poorly insulated homes and are more likely to use electric heating, and therefore may have higher consumption than many other residential consumers.

The Board also believes that it would be unwise to attempt to create a group of low-income energy ratepayers. To create a category of customers whose rates are based on their ability-to-pay could result in a distortion of prices and ratepayer costs.

4 Eligibility for Assistance

In developing the policies set out in this report, the Board's first consideration was how to determine eligibility for assistance (i.e., who is "a low-income energy consumer"). Various definitions were put forward during the consultation. These definitions may be categorized into two groups: (1) poverty as measured by either an absolute or relative reference to income; and (2) fuel poverty as measured by a defined and relative amount a consumer spends on energy in proportion to their total income. Both definitions are reasonable, but are imprecise and therefore would be difficult to administer in a Board policy. As a result, the Board does not think it possible to have a precise definition of "low-income energy consumer" that would be valid at all times and in all circumstances.

The Board has concluded that the important consideration is whether the customer is low-income and in need of assistance. Also, the Board has concluded that the individual assessment of eligibility should not be the responsibility of the Board or the distributor, who may not have the information or expertise to make such an assessment. Rather, this assessment is more appropriately determined by a social service agency. Such agencies have the information, expertise and experience to determine which consumers should be eligible for assistance and what type of assistance is best provided. In the Board's view, leaving the determination of eligibility to the distributor's social service agency partner will best ensure the success of a low-income energy consumer assistance program.

The Board also heard in the consultation that assistance should be available to consumers that use fuels such as wood, heating oil or propane. The Board does not regulate fuels other than electricity and natural gas, and notes that there are government programs that provide financial assistance for energy costs for these other fuels.

5 Low-income Energy Assistance Program (LEAP)

In developing its policy framework for assistance for low-income energy consumers, the Board recognizes the need to balance the interests of low-income energy consumers with its broader responsibilities to all consumers, including the need to adhere to the tenets of ratemaking and to be guided by its statutory objectives in relation to both electricity and natural gas. The Board is of the view that a low-income energy program is in the public interest, and is consistent with its statutory objectives. Assistance to low-income ratepayers may minimize bad debt and disconnections, and the associated costs.

The Board does not believe that assistance to low-income energy consumers should rely solely on direct financial assistance. Therefore, LEAP consists of three components: (1) emergency financial assistance for bill payment; (2) tailored customer service measures; and (3) targeted conservation and demand management programs. The tailored customer service measures and targeted conservation and demand management programs may reduce low-income energy consumers' need for financial assistance. These three components comprise the "toolbox" of resources that should be available to assist low-income energy consumers.

In the Board's view, it is important that LEAP be available province-wide. The Board believes that low-income energy assistance should be a consistent program across the province and one where low-income energy consumers have access to similar services irrespective of the distributor that serves them.

As noted above, a key principle underlying LEAP is the partnership between distributors and social service agencies. Such partnerships leverage the agencies' expertise and experience in assisting low-income energy consumers and can better ensure that those most in need receive the appropriate level and type of assistance.

During the consultation, the Board was made aware of existing provincial assistance programs. Social service agency partnerships may offer the opportunity to coordinate available resources and provide ease of access to these government programs that can also assist low-income energy consumers.

The Board does not intend for LEAP to become a major administrative or regulatory burden. Simple reporting requirements and cost recovery processes are ways to ensure all distributors can effectively and efficiently participate in LEAP. Also, partnerships with social service agencies will place the discretion to disburse funds within the agency and further reduce the need for regulatory oversight.

5.1 LEAP Emergency Financial Assistance for Bill Payment

The bill assistance component of LEAP builds on the experience gained under existing Winter Warmth or similar programs. These are programs that have been successfully engaged in by a number of electricity and natural gas distributors. The success of these programs lies in the partnership between the distributor and a social service agency. In some cases the United Way acts as a lead agency to coordinate aspects of the program which are sub-contracted to local delivery agencies. Whatever the model, the Board believes that all distributors should create partnerships with capable social service agencies. To this end the Board expects that distributors will provide LEAP funding to a social service agency partner that serves their franchise or service area.

The Winter Warmth program provides emergency assistance to eligible consumers during the winter heating season. The Board's LEAP expands on the Winter Warmth program by extending emergency assistance year-round.

To establish the amount of funding that distributors should allocate for the financial assistance portion of LEAP, the Board reviewed the Winter Warmth and other similar programs in which Ontario's natural gas and electricity distributors currently participate. For the 2008-2009 winter season, Union Gas and Enbridge Gas are each investing

approximately 0.01% of their respective distribution revenues, compared to approximately 0.02% for Toronto Hydro, 0.03% for PowerStream and Hydro Ottawa, 0.04% for Enersource Hydro Mississauga and 0.18% for London Hydro¹. In total, approximately \$1.2 million has been made available through distributor emergency assistance programs for the 2008-2009 winter season.² The Board notes that Union Gas and Enbridge Gas are in a unique position as they have access to additional funding from the Garland class-action settlement.

The Board believes that the amount allocated to low-income energy consumer assistance could be increased without creating significant rate pressure. The Board has determined that the greater of 0.12% of a distributor's Board-approved distribution revenue requirement, or \$2,000, is a reasonable commitment of distributors to LEAP. A funding level of 0.12% is approximately twice the average currently being provided by electricity distributors. This would represent the maximum amount that distributors would be permitted to recover through rates. For smaller distributors, a minimum commitment of \$2,000 would ensure that more funding was available than otherwise would be if based solely on a percentage of distribution revenues. If there are funds left over at the end of the calendar year, the Board expects that distributors will roll these funds over into the next year, in addition to that year's annual commitment.

With respect to non-rate regulated distributors, the Board strongly encourages these distributors to collect a similar level of funding through distribution rates.

The Board notes that a commitment of 0.12% of distribution revenue would make approximately \$3 million available to low-income electricity consumers and approximately \$2 million for low-income natural gas consumers. This represents a

¹ With the exception of London Hydro, the distributors noted here are participating in the Winter Warmth Program. London Hydro participates in The Heat and Warmth ("THAW") program.

² In addition to the distributors noted here, the following distributors are also participating in the Winter Warmth program for the 2008-2009 winter season: Burlington Hydro, Horizon Utilities, Veridian Connections, and Hydro One (pilot program).

significant increase in the amount of financial assistance currently available to low-income energy consumers in Ontario under Winter Warmth and similar programs. The Board concludes that this level of funding can provide significant assistance to those with the greatest need without creating an undue burden on other ratepayers or creating a material level of subsidy. Participants in the consultation noted that experience in other jurisdictions has shown that similar programs to assist low-income energy consumers can provide benefits that reduce any actual subsidies.

As noted in section 5.1.1 below, the Board encourages distributors to seek to augment their LEAP funding from other, non rate-related, sources such as shareholder or other charitable donations.

5.1.1 Funding LEAP

During the consultation, three sources of funding for low-income energy consumer programs were discussed: a system benefit charge; distribution rates; and charitable donations. The Board favours funding through distribution rates, specifically by allowing distributors to incorporate amounts in their operating, maintenance and administration (OM&A) expenses. For each distributor, the amount would be included as a component of OM&A at the time of rebasing. In order to ensure timely implementation of LEAP, the Board will provide for a LEAP deferral account. This account may be brought forward for disposal upon rebasing. The Board will review LEAP cost allocation periodically as it reviews the effectiveness of the program.

In order to augment funds collected through distribution rates, the Board also sees merit in distributors seeking voluntary charitable donations to fund LEAP as is the practice in many other jurisdictions. The Board will provide distributors with guidance as to the recording of, and reporting on, such donations.

Low-income energy consumer assistance may include temporary relief from amounts owing for commodity purchased from electricity retailers and natural gas marketers. The Board strongly encourages these licensees to offer contributions to a distributor's LEAP in areas where they have customers. The Board will monitor electricity retailer and natural gas marketer contributions through appropriate reporting requirements.

5.2 LEAP Customer Service Measures

The second component of LEAP is access to more flexible and tailored customer service rules. While LEAP makes emergency financial assistance available, the Board believes that customer service measures that allow low-income energy consumers to better manage their bill payments will lessen the need for financial assistance, and allow distributors to more effectively manage collections, bad debt, and disconnection / connection costs. The Board believes that low-income energy consumers would benefit from specific customer service measures in the following areas:

- Billing and bill payment – i.e., longer bill payment periods, faster repayment of over-billed amounts and installment payments for under-billed amounts, monthly equal billing and other specific equal billing requirements;
- Disconnection – i.e., a standard disconnection notice that includes information of particular relevance to low-income energy consumers, and a longer minimum notice period prior to disconnection;
- Security deposits – i.e., a deposit waiver for low-income energy consumers that receive energy bill assistance and extended periods over which to pay required deposits in certain circumstances; and
- Arrears management – i.e., payment agreements that allow low-income energy consumers to pay arrears over an extended period.

5.3 LEAP Targeted Conservation and Demand Management Programs

During the consultation, the Board heard that low-income energy consumers are more likely to reside in homes that are in need of energy efficiency upgrades. Electricity conservation and demand management (“CDM”) and natural gas demand side management (“DSM”) programs can be effective tools to assist low-income energy consumers to reduce their overall energy usage. However, in order to provide effective assistance, programs need to be targeted to, and specially designed for, low-income energy consumers. Many of these programs may not be consistent with the general principle that CDM and DSM programs deliver positive total resource cost (“TRC”) benefits³. Failure to meet the test should not necessarily result in disqualification for the overall CDM or DSM portfolio. The Board is of the view that it is in the public interest for distributors to have the appropriate incentives to create programs targeted to low-income energy consumers. In this way low-income energy consumers will have increased access to CDM and DSM programs that are tailored to their needs, which in turn will allow them make conservation efforts and consequently help to optimize available LEAP funding. It is recognized that while all ratepayers pay for CDM and DSM programs, low-income energy consumers often cannot access those programs for a variety of reasons. CDM and DSM programs directed to low-income energy consumers ensure that all customers that pay for these programs have access to programs.

The Board notes that the Ontario Government introduced new legislation on February 23, 2009 which makes provision for a new framework for the delivery of CDM initiatives in the province. Under amendments to the *Ontario Energy Board Act, 1998* proposed in Bill 150 (the *Green Energy and Green Economy Act, 2009*), the Minister of Energy and Infrastructure may direct the Board to establish conservation targets for electricity distributors. It is contemplated that distributors may be permitted to meet their targets

³ The total resource cost test measures the net costs of a CDM or DSM program as a resource option based on the total costs of the program, including both the participant's and the distributor's costs.

by offering Board-approved CDM programs in their service areas or by contracting with the Ontario Power Authority for the provision of province-wide programs. In the former case, the Board would need to establish criteria for programs that may be included in a distributor's portfolio, and approve the distributor's portfolio of programs and budget. This new framework, if implemented, will provide further opportunity for the Board to ensure that the appropriate level and type of CDM programs are available to low-income electricity consumers.

The Board intends to revisit its CDM and DSM policies to ensure that they reflect the expectation that distributors target a portion of their programs to low-income energy consumers. With respect to natural gas DSM, the Board initiated a consultation process (EB-2008-0346) in October 2008 to develop guidelines to be used by natural gas distributors in developing their next generation DSM plans. Under the proposed DSM Guidelines, natural gas distributors would be expected to propose explicit metrics and corresponding targets for the DSM programs targeted at low-income energy consumers. The Board intends to review its electricity CDM policies in the near term to ensure that similar provisions are included in relation to CDM programs for low-income electricity consumers.

6 Consumers in Multi-Residential Units

During the consultation, the Board was asked to consider whether assistance could be made available to consumers in multi-residential units whose energy costs are included in rent. The Board does not believe that there is a meaningful way to allocate a landlord's bulk metered costs to individual rental units unless the units are individually metered, and even then it is not within the Board's purview to mandate the terms of rental agreements.

However, the Board does license distributors in relation to the installation of smart meters in individual residential units and also currently licenses smart sub-metering providers in relation to the installation of smart sub-meters in certain individual residential units. The smart metering activities of distributors are governed by their distribution licences and the Distribution System Code, while the smart sub-metering activities of smart sub-metering providers are governed by their smart sub-metering licences and the Smart Sub-Metering Code. Smart metering or smart sub-metering is a requirement for new condominiums, and the installation of smart meters or smart sub-meters in other residential units is expected to increase over time as persons become authorized to conduct those activities in accordance with applicable legal and regulatory requirements. The Board sees no reason why the occupants of rental and condominium units that are billed for their electricity costs separately (i.e., if their electricity costs are not included in their rent) should not be entitled access to the same programs as occupants of single family dwellings. Therefore the Board is of the view that low-income electricity consumers residing in rental and condominium units, who are billed for their electricity costs separately should have access to the LEAP funding collected by distributors through distribution rates.

7 Implementation

7.1 Code Amendments

The Board is of the view that LEAP should be available across the province by November of 2009.

To implement the customer service elements of the program, the Board is issuing proposed amendments to the Distribution System Code, the Retail Settlement Code, and the Standard Supply Service Code through the Notice of Proposal to Amend Codes that is being issued in coordination with this Report. These amendments would give effect to specific policies that are intended to assist low-income electricity consumers. The proposed amendments form part of a larger set of proposed amendments, that are addressed in the same Notice, as part of the Board's "Electricity Distributors: Customer Service, Rate Classification and Non-payment Risk" consultation (EB-2007-0722).

The Board believes it to be efficient to defer proposing amendments to the Smart Sub-Metering Code to implement similar customer service rules until such time as the process for amending the other codes has been completed. In the meantime, to assist social service agencies in identifying the entities that have been licensed by the Board as smart sub-metering providers, the Board will publish the names and business addresses of these licensees on the consumer education section of its web-site.

7.2 Gas Distributors

The Board expects that natural gas distributors will implement LEAP customer service rules similar to those that may ultimately be adopted for the electricity sector. The Board does not currently propose to codify those rules in relation to the natural gas distributors, but may revisit this approach if warranted.

7.3 Reporting Requirements

The purpose of LEAP is to assist low-income energy consumers and not to create a new regulatory process. Reporting requirements should not be onerous. However, the Board believes it important to evaluate and measure program performance so as to understand how funds have been disbursed and how effective the program has been in managing low-income energy consumer issues in relation to their use of natural gas and electricity such as disconnections, bad debt expenses, etc. The Board will begin work immediately on developing appropriate reporting requirements. This work is expected to be completed by the fall of 2009 and in advance of the expected date for distributors to have LEAP in place.

7.4 Further Consultation

The Board appreciates that further discussion with stakeholders will assist in the timely and efficient roll-out of LEAP. To this end, the Board will establish a LEAP Implementation Working Group with representatives of distributors, consumers, and social service agencies. Board staff will chair the Working Group and develop its agenda.

8 Education and Outreach

Consumer education and outreach are fundamental to the success of LEAP. Low-income energy consumers need to be aware of and understand what programs are available and how to access them. The Board believes it is critical for distributors to undertake a consumer awareness campaign to make their local energy assistance programs known to their customers. This should include information about LEAP, but also other assistance programs that may be available in the distributor's service or franchise area.

For its part, the Board will be working, with the assistance of distributors, to accumulate and organize information about programs being provided to assist eligible low-income energy consumers. This information will help low-income energy consumers gain access in one place to all of the information that can help them better manage their energy bills. The Board's consumer education initiatives are meant to complement the education and outreach activities to be undertaken by distributors.

Through its "Energy Choice is Yours" education and outreach campaign, the Board will:

- Work with electricity and natural gas distributors to gather and maintain contact information on the social service agency partners responsible for delivery of the local energy assistance programs;
- Provide a "one-stop shop" section of the Board's website; and
- Develop consumer education materials specific to the available energy assistance programs and target outreach opportunities to reach low-income energy consumers and organizations involved in providing services to these consumers.

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