

EnviroCentre's Comments on the Ontario Energy Board's Proposed Low-Income Energy Assistance Program

As one of the leading non-profit organizations in Ontario that directly provides energy-efficiency goods and services to low-income households to reduce their energy bills and greenhouse gas emissions, EnviroCentre was pleased to note the progress made by the Ontario Energy Board (the "Board") in its March 2009 Low-Income Energy Assistance Program (LEAP) Report. In particular, EnviroCentre applauds the Board for agreeing that Conservation and Demand Management (CDM) and Demand Side Management (DSM) programs targeted to low-income households should be cost-effective but need no longer be Total Resource Cost positive (TRC+).

EnviroCentre regrets, however, that despite the Board's recognition that "assistance to low-income energy consumers should [not] rely solely on direct financial assistance" it currently calls for a tripling of financial assistance by November 2009, does not make any significant progress with regard to customer service measures, and only "intends to revisit its CDM and DSM policies" for low-income households once the Ontario Government passes the Green Energy and Green Economy Act and directs the Board to establish conservation targets. As with other initiatives in this field, the development of these policies and programs appears to have been inadequately informed by the challenges they will face being implemented, which is often the most important test of their effectiveness.

Because of its sustainable development mandate, EnviroCentre is also disappointed that the Board chose not to address the issues raised regarding the absolute lack of "energy poverty" in Ontario. Evidence presented at the consultation showed that the average per capita consumption of energy in Ontario – notably electricity and gas – is the highest of any country in the world.¹ Most low-income households in Ontario consume more energy than the average European household, notably because Board regulated energy distribution rates do not adequately reflect past, present, or future TRCs.

In that regard, EnviroCentre questions both the choice and application of some of the principles the Board cites in developing LEAP, because they focus on financial assistance, do not seem to be applied to the other two components of LEAP, and appear at times to be contradictory:

¹ *Universal Energy Care for Ontario Consumers*, Summation to the Ontario Energy Board Consultation on Energy Issues Relating to Low-Income Consumers, EnviroCentre, 20 October 2009, 8 pp.

- Increasing “emergency funding” will not help low-income consumers prevent their need for assistance in the future as it deals only with short-term debts and, by avoiding the issue of disconnections, condemns many more consumers in Ontario to the threat of losing access to energy during the winter;
- If “assistance” should be available to both electricity and natural gas consumers, EnviroCentre argues that both groups of consumers should also benefit from rising block rate structures that reward energy conservation and favour low-income households;
- Despite the Board’s interest in “more effective and efficient handling of arrears management and disconnection”, LEAP avoids solutions that are easy to administer and implement.

EnviroCentre also cautions the Board about LEAP’s tendency to position programs as “assistance” to low-income consumers, a term rarely used with regard to its much larger CDM and DSM programs that overwhelmingly benefit higher-income consumers. As noted by Baker and White (2008), low-income consumers often pay more per unit than higher-income consumers for the energy they consume and may actually contribute more per unit to rate-based CDM and DSM programs than they receive.

EnviroCentre’s experience with thousands of low-income consumers has shown that all they want are “fair and reasonable” rates, not charity.

EnviroCentre shares the Board’s belief “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” but points out that this has never been the case in Ontario. The \$20 billion gorilla in the room is clear evidence that Ontario’s below-cost commodity prices and distribution rates have not reflected the true economic cost of energy and current rates still do not address the social and environmental costs, let alone deficits. Although some progress is finally being made in Ontario by closing down coal-fired generating plants, most environmental and social costs continue to be externalized and carried forward to future generations instead of being reflected in current rates.

EnviroCentre trusts that recent research² can convince the Board that inverted block rates will assist most low-income electricity consumers notably because a “correlation between low-income and low consumption” has been established, at least in the United Kingdom:

² In the United Kingdom, the National Consumer Council commissioned the Centre for Sustainable Energy to undertake a study, *Towards sustainable energy tariffs*, that assesses both current and possible energy tariffs against the three pillars of

Rising block tariffs could help make energy more affordable for many low-income households, given that they tend to have low consumption and would therefore benefit from a lower cost 'first block'. They also represent one of the few tariff structures that can explicitly address social justice objectives. Rising block tariffs represents a more 'universalist' approach to meeting social justice objectives in that they do not involve means testing, unlike social tariffs. Suppliers would have to recover any revenue lost from a lower cost first block from a smaller consumer base for the subsequent blocks.

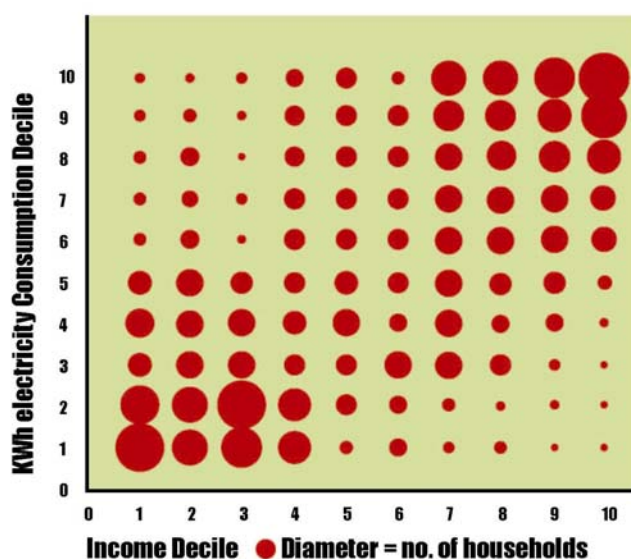
Rising block tariffs ... 'reward' low energy users with lower prices, provide incentives to reduce demand among higher energy users, and ensure supplier revenue is recovered through the higher charges for high energy users.

The CSE study suggested that there are three broad options for constructing rising block tariffs, depending on the policy objective sought:

1. achievement of electricity and gas demand reductions (environmental);
2. balancing overall supplier revenues (economic); and
3. reducing the burden of energy costs to low-income households (social).

Rising block tariffs score well on environmental sustainability and social justice criteria, providing there are complementary policies to install energy efficiency measures in the homes of low-income consumers and support low-income consumers with high consumption. Under this option, suppliers are required to structure their tariffs so that the first block of consumption is offered at a relatively low rate, with subsequent blocks offered at increasing rates. This is to recover lost revenue from the lower rate first block, and provide funds for energy efficiency and other low carbon measures. These funds should be targeted at low-income consumers, with particular priority given to those living in hard-to-treat properties and those requiring higher levels of consumption due to ill health, disability and/or age.

Electricity Use by Income Decile



sustainable development: economic efficiency, environmental sustainability and social justice. It has brought "a fresh insight" to the debate on energy tariffs, which is especially relevant given the "twin challenges of fuel poverty and climate change" (Baker and White, 2008).

EnviroCentre also wishes to correct the belief by some that most low-income households in Ontario have electric heat. In fact, only 27% of the lowest income quintile has electric heat. Despite the poor decisions of some social housing agencies in the past, and the more recent and thus even poorer decisions, to install electric heat in social housing units, the fact remains that most low-income households in Ontario are heated with natural gas. Because they live in social housing units, which were built to the Ontario Building Code and thus are not generally poorly insulated, it is inaccurate to conclude that they “may have higher consumption than many other residential consumers” all the more so because most low-income consumers live in smaller houses and heat their homes to lower levels.

In fact, inverted rate structures currently do help the vast majority of low-income consumers who do not have electric heat and do not consume more than the lifeline rate already in effect in Ontario. It is true that most “working poor”, whose incomes keep them out of social housing, live in private housing that was not built or maintained as well as social housing and has a higher tendency to be heated with electricity.

More research could provide the basis for better policy decisions on matters like inverted or rising block rates and EnviroCentre regrets that this primordial issue was dismissed by the Board in a single page, partly on the false pretense that it would “create a group of low-income energy ratepayers”.

Although EnviroCentre promotes rising block or Conserver Rates applicable to all consumers, it questions the wisdom of deciding not to explore further social tariffs, given the attention this matter has received in countries like the United Kingdom. According to a review by its Office of Gas and Electricity Markets (OFGEM) of voluntary initiatives to help vulnerable utility customers,³ OFGEM notes that five out of six gas and electricity utilities offered social tariffs in 2007 that benefited over 371,000 households with average annual savings of about £193 per customer. If the Board simply wants to assist low-income households, it would be far more efficient to adopt some form of social tariff rather than invest in an emergency-based financial assistance program that reaches only a small fraction of those in need and is very cumbersome and subjective to implement.

EnviroCentre concurs with the Board's conclusion that the task of determining eligibility for low-income energy assistance programs should be devolved to social service agencies if the definition of

³ See CAD/CONS/167 of The Office of Gas and Electricity Markets, 8 October 2007, www.ofgem.gov.uk

such agencies includes non-profit organizations that provide social services in their communities. It notes, however, that most traditional social service agencies are currently not prepared to deliver CDM or DSM programs. Greater implementation efficiencies could be generated by enabling both the qualification of clients and the delivery of services to be done by the same agency.

That said, the most efficient approach to implementation, identified in the United Kingdom by Baker and White (2008), would be to use taxation, unemployment, and pension data to screen in most low-income households.⁴ The second most effective way for distributors to identify eligible participants would be to forego public relations campaigns and invest instead in community-based, social service agencies, like the Health and Community Resource Centres in Ottawa, in communities across the Province as they know their clientele best.

EnviroCentre is pleased to advise that it has empirical data showing that targeted CDM programs delivered to low-income households not only “may” but actually do reduce energy bills and thus the need for financial assistance. In fact, EnviroCentre argues that CDM programs should be the primary tool of LEAP as most emergency funding simply perpetuates problems instead of helping to solve them.

Although there is no doubt that LEAP should be available province-wide, EnviroCentre argues that it is more important to call for consistency where necessary, but not necessarily consistency when it comes to implementing CDM programs and financial assistance. It is not realistic to expect that hundreds of front line workers in various social service agencies across the Province could implement emergency financial assistance programs in a consistent way. Furthermore, the Low Income Cut-Off rates (LICO) vary across the Province in recognition of varying costs of living, notably between urban and rural areas. Having delivered CDM and DSM programs to hundreds of low-income households in both urban and rural areas of Eastern Ontario, EnviroCentre has documented distinctly different needs based on housing stock but also heating sources. In some cases, the application of a consistent CDM policy across the Province would mean that a significant investment of resources to reduce electricity consumption would have virtually no impact because the all-electric homes in question are actually heated with wood.

⁴ “A number of suppliers have highlighted the difficulty of identifying and targeting the fuel poor. Several stakeholders suggested it would be more appropriate for the Department for Work and Pensions to take on this task. This would provide a more precise mechanism for targeting social tariffs and avoid the subjective nature of the current, voluntary approach. The means-testing can be stigmatising for beneficiaries.”

EnviroCentre supports the key principle of partnerships between distributors and social service agencies in qualifying low-income households but cautions that few such agencies have much experience in actually delivering such services, except in the field of financial assistance.

The Board is correct in noting that a number of distributors have successfully engaged in Winter Warmth and similar financial assistance programs but data for Ottawa indicate that this “success” has only benefited about 1% of low-income households.⁵ The clear beneficiaries of Winter Warmth are the distributors: 85% of the funds they invest boomerang back into their bank accounts. Distributors also generate substantial goodwill because these programs could be considered pseudo but very selective:

Social tariffs ... ostensibly funded through suppliers' corporate social responsibility budgets, which are designed to improve suppliers' public relations profiles.⁶

Worse still, of the over 1,000 households that benefited from Winter Warmth over the last five years in Ottawa, none were referred to EnviroCentre's Power Play program, which helps low-income households not only understand why their energy bills are so high but actually reduces them by installing up to \$300 worth of energy conservation devices, free-of-charge.

These financial assistance programs are just the tip of the iceberg, however, at least in Ottawa. In 2008, Hydro Ottawa received over \$1 million from the City of Ottawa to cover the bills and arrears of low-income households receiving social benefits from the City, an amount that almost equals the “approximately \$1.2 million ... made available through distributor emergency assistance programs for the 2008-2009 winter season” for the entire Province. This amount, over 100 times the net contribution of Hydro Ottawa to Winter Warmth, reveals the extent to which other financial assistance programs not on the radar screen of the Board act as very efficient guaranteed payment or free collection services for distributors but have little to no impact on helping to reduce energy consumption and bills.

Although a key principle underlying LEAP, it should be noted that there has been no real partnership between distributors and social service agencies in Ottawa. The United Way coordinates Winter Warmth in Ottawa but receives no funding for its work and the Salvation Army receives less than \$10,000 per year from Hydro Ottawa to administer the program.⁷ Donors to the United Way might question why

⁵ In 2008, only 282 households out of an estimated 25,000 low-income households in Ottawa benefited from Winter Warmth.

⁶ Baker and White (2008)

⁷ A similar amount is probably also received from Enbridge.

their money is subsidizing distributors, and some might question the Salvation Army's charitable motivations, but the fact is that this arrangement is not sustainable, can hardly be described as a partnership, and certainly does not provide the foundation for a substantial increase in financial assistance.

In this regard, EnviroCentre recommends that the Board expand its definition of social service agencies to include, for example, the Coalition of Community Health and Resource Centres of Ottawa, which includes 14 social service agencies working on the front line with low-income households. By working directly with such organizations, the kind of implementation efficiencies being sought by both the Board and distributors could be more easily achieved.

EnviroCentre also questions the Board's assertion that "The Winter Warmth program provides emergency assistance to eligible consumers during the winter heating season". In fact, this program provides assistance only to a very limited number of eligible consumers. During the 2008/2009 heating season, Ottawa exhausted its funds in February, helping only 122 households reimburse Enbridge by an average of \$348 and another 160 households reimburse Hydro Ottawa by an average of \$353. In total, only 282 households received assistance.

Worse still, Winter Warmth may not help clients who cannot match the average \$350 credit available. This means that consumers who owe more than \$700 on their bills may be rejected and far too many of them are disconnected if the distributor does not settle for partial payment. To add insult to injury, when they finally scrape together enough money to pay off their arrears, too many of them are also forced to pay a reconnection fee. The Board may wish to reconsider its conclusion that an increased level of financial assistance funding "can provide significant assistance to those with the greatest need" unless LEAP provides more progressive criteria and more streamlined implementation protocols.

EnviroCentre also urges the Board to reconsider its decision to expand and extend financial assistance based on the Winter Warmth model because it would institutionalize "emergency assistance year-round". Such an approach will not help the thousands of families in Ontario who run the risk of losing access to energy when they need it most because it will allow distributors to continue to disconnect clients who cannot pay, even during the winter. A case can also be made that emergency assistance also

rewards those who have mismanaged or wasted resources and penalizes those who act more responsibly.⁸

The mandate of the Board to provide “fair and reasonable” rates will only be achieved in this respect when it finally pulls Ontario out of its regulatory Dark Ages by adopting the more civilized regulations regarding disconnections now found in Quebec, throughout the United States⁹ and Europe. That is why EnviroCentre again urges the Board to prohibit natural gas and electricity disconnections during the heating season to all consumers.

The Board's recommendation that distributors augment LEAP funding through charitable donations is seen, at best, as incongruous, and at worst, as unfair competition for charitable donations to compensate for the lack of regulations in this field.

Although the intent of the Board's conclusions on improving customer service measures is laudable, there is considerable question about the efficacy of the measures proposed. More flexible billing and payment schedules are simply good business practices that should have already been implemented by distributors. Given the fact that Ontario is one of the last jurisdictions in North America to regulate more progressive energy disconnection rules, the belief by the Board that more relevant information and longer notice periods represents progress is hard to understand. The call to waive deposits for low-income consumers is welcomed but, like more flexible arrears payment arrangements, will hardly make a difference as many distributors have already adopted such practices.

EnviroCentre maintains that one of the most responsible and efficient ways to help low-income consumers of natural gas and electricity save money without reducing their incentive to save energy is to exempt them from fixed charges, including reconnection and interest charges. In fact, because the commodity charges would represent a higher proportion of their bills, their incentive to conserve would be even greater. This approach would also be very easy to implement and administer.

⁸ The Board may wish to consider the current controversy in the United States, caused by poor regulation of the financial sector, about homeowners who bought a house they could not afford and are now being bailed out on an emergency basis while their more prudent neighbours continue to pay taxes to subsidize this failed approach.

⁹ “of all 50 states and the District of Columbia ... 48 jurisdictions have implemented policies or adopted rules to protect consumers from disconnections during extreme weather conditions or when the disconnection would be detrimental to the medical condition of the individual customer or a member of the household” (Concentric Report Review of Low Income Energy Assistance Measures Adopted in Other Jurisdictions, 2008).

As noted above, EnviroCentre applauds the Board for agreeing that CDM and DSM programs targeted to low-income households no longer need to deliver TRC+ benefits but simply meet the lower test of being cost-effective. This decision will improve the efficiency with which programs are implemented and represents substantial progress in this field. The Board's recognition that "while all ratepayers pay for CDM and DSM programs, low-income energy consumers often cannot access those programs for a variety of reasons" merits the attention of all energy policy and program designers in Canada.

That said, EnviroCentre regrets that the Board appears to have ceded, at least temporarily, its responsibility for CDM and DSM programs to the Ontario Government by noting that it "may" direct the Board to establish conservation targets for electricity distributors, that distributors "may" be permitted to meet their targets by offering Board-approved CDM programs, that the Board "would need to establish criteria", and that this new framework will provide further opportunity to ensure that CDM programs are available to low-income electricity consumers only "if implemented".

Because CDM and DSM programs in Ontario are the most significant and effective way to help low-income households reduce their energy consumption and thus bills, the good intentions of the Board and the Ontario Government remain, unfortunately, simply that: good intentions. The only concrete result of the consultation to date is the decision to increase financial assistance by ramping up the distributors' debt collection service, which forces them to pay a 15% premium to credit the accounts of their own customers. This would mean that \$750,000 that could be used to reduce the debts of low-income consumers would, ironically, increase the revenue of social service organizations instead.

EnviroCentre concurs with the Board's conclusion that "low-income electricity consumers residing in rental and condominiums units, who are billed for their electricity costs separately should have access to LEAP funding" but notes that this is already the case for both CDM and DSM programs.

EnviroCentre supports the Board's view that LEAP, or a version of it, "should be available across the Province by November 2009" but questions how this can happen unless the process to establish criteria for CDM and DSM programs is accelerated. The lack of discussion by the Board regarding increasing the 14% allocation of DSM funding to low-income programs is troublesome, bearing in mind 86% of

the funding thus goes to households that could afford to make these cost-effective investments themselves and that there is no similar allocation of CDM funding.

EnviroCentre also concurs with the Board's expectation that the customer service rules of natural gas distributors should be harmonized with those of electricity distributors without waiting for the Board to codify the rules in question.

Given the lack of data on measured results in this field, EnviroCentre shares the Board's belief in the importance of better evaluation and reporting requirements in this field; welcomes the establishment of a LEAP Implementation Working Group; and recommends that it include representatives of organizations that actually deliver energy-efficiency programs to low-income households.

Finally, EnviroCentre cautions the Board that typical consumer education and outreach programs cannot be relied on to ensure the success of LEAP because low-income households are not typical consumers. The Board also needs to ensure that distributors proceed with caution in this field because their corporate or community relations departments already drive consumer awareness campaigns and sometimes raise expectations above what their CDM, DSM, or financial assistance programs can deliver, and what low-income households are led to believe they can get.

The cynicism that this approach has already generated in low-income communities, combined with the relentless predation in these vulnerable communities by energy retailers, severely undermines the effectiveness not only of consumer awareness campaigns but of the efforts of community-based organizations, whose representatives increasingly find that doors will not open or are quickly closed when offers are made to help with energy bills. That is why EnviroCentre urges the Board to provide better protection from energy retailers who prey on low-income households.

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