EDA
The Voice Of Ontario's Electricity Distributors

September 17, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Board File No. EB- 2008- 0150
Consultation on Energy Issues relating to Low Income Consumers

In accordance with the Ontario Energy Board's Notice dated August 11, 2008, we enclose, in searchable PDF format, a summary of the Electricity Distributors Association's talking points which it intends to present at the Stakeholder Conference on September 24 and 25, 2008. Two hard copies of the attached are being couriered.

Yours truly,

"original signed"

Richard Zebrowski
Vice President, Policy and Corporate Affairs

Encl.

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Rate-related Measures and Issues re Low Income

Consultation on Energy issues for Low Income Consumers

Wednesday September 24, 2008

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LDC Views

- LDCs have been working with social agencies in assisting low income consumers.
- LDCs have first hand experience on the problems of social agencies attempting to assist low income, particularly; lack of adequate funding.
- LDCs have concerns with using rate design as means to assist low income.

Rate Principles

- In his seminal 1961 work, *Principles of Public Utility Rates*, Prof. James Bonbright provided the rate design principles that have been used by all regulators ever since.

Bonbright Rate Principles

- 1. The related, “practical” attributes of simplicity, understandability, public acceptability, and feasibility of application.
- 2. Freedom from controversies as to proper interpretation.
- 3. Effectiveness in yielding total revenue requirements under the fair-return standard.*
- 4. Revenue stability from year to year.
- 5. Stability of the rates themselves, with a minimum of unexpected changes seriously adverse to existing customers. (Compare “The best tax is an old tax.”)
- 6. Fairness of the specific rates in the apportionment of total costs of service among different consumers.*
- 7. Avoidance of “undue discrimination” in rate relationships.
- 8. Efficiency of rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use:*
  - in the control of the total amounts of service supplied by the company;
  - in the control of the relative uses of alternative types of service (on-peak versus off-peak electricity, etc.)

*Bonbright’s three primary pricing objectives

Cost tracking objectives

- In addressing these principles, another objective applies:
  - Rates should track cost to the extent practical
- With regard to the principle of fairness among different customers, cost pricing enjoys more widespread acceptance.
- Cost pricing also addresses optimum utilization, where consumers should be encouraged to take service, in whatever amounts, they wish to take as long as they are made to pay for the costs.
- Cost pricing allows recovery of utility revenue requirements.

Non-discrimination objective

- There is a obligation on utilities to avoid undue or unjust discrimination among customers.
- This obligation is consistent with the goal of having “just and reasonable” rates
- Discrimination is defined as different charges to customers for the same services.

Bonbright views on ability-to-pay criteria

- Public utility rates are ineffective instruments by which to minimize inequalities in income distribution and alternative instruments are better designed to accomplish this objective.
- There may be support for society to providing a subsidy now in order to be better off later and receive a payback of the subsidy. e.g. conservation investment allows savings to pay for the investment
- But there is extreme difficulty of prophesying and measuring indirect social benefits and an absence of objective tests – expect considerable disagreements between stakeholders on the amount of “investment”

Regulatory Mandate

- Cost-based ratemaking is the most widely-used standard for evaluating whether rates are “just and reasonable.”
- Key role of regulation is to prevent utilities from using their market power to price discriminate between customers and consider relative demand elasticities (i.e. willingness to pay).
- Rates designed to take advantage of a utility’s market power may be incompatible with the primary underlying purpose of public utility regulation, which is to act as a substitute for competitive markets.
- Regulation is generally used to achieve the goal of setting rates that are comparable to those provided by a competitive industry sector, and thus eliminate customer concerns over market power.
- Regulation seeks to establish rates that are cost-based, and which do not discriminate between or within customer classes

Regulatory Mandate

Impact on motivation to conserve energy

- Programs that are targeted specifically at energy assistance are likely to discourage efficient use of energy by reducing the cost of energy relative to other items in the customer's budget.
- Thus, some program designs might actually increase the amount of energy used by low-income consumers, and might even cause energy use to become a larger part of the overall household budget.
- Social programs providing funds instead of discounted energy costs would be better at encouraging efficiency

Rate Discount Measures

- Rate discounts for low income customers have taken the following forms in the U.S.:
  (a) reduction or waiver of the fixed monthly charge;
  (b) reduction of the commodity charge;

Conflict with Efficiency

- Waiving or reducing commodity charge criticized as not providing the appropriate incentive/ price signal to reduce energy use.
- Waiving or reducing the fixed costs is perceived as more compatible with energy efficiency goals

Rate Design Measures

- Rate design options such as lifeline rates or inverted block rates generally assume correlation between income and usage level
- Lifeline rates or inverted block rates designed to assist low income violate the ratemaking principle of cost causation.
- These rate options shift costs onto other ratepayers, inconsistent with the concept of “just and reasonable rates”, and represents discriminatory pricing

Low Use Assumption

Lifeline and inverted rates rely on assumption of correlation between usage and low income

- Studies indicate this assumption is incorrect in Ontario.
- According to information reported in 2004 by Low Income Energy Network ("LIEN") and Advocacy Centre for Tenants Ontario ("ACTO") based on earlier studies - the lowest household income quintile in Ontario has a far greater proportion of households that use electric as their primary heating equipment (24.5%), use electricity as their primary heating fuel (27%), use electricity as their primary heating fuel for hot water (36.3%), and have primary heating equipment more than ten years old (64.5%).

Rate Design Measures

- Lifeline/inverted rates are an imperfect method because of weak correlation between income and usage
  - Low income have poorly insulated homes
  - Low income often spend more time at home
- These options only hope to help low income, though many would be worse off
- Rather than rate options, bill discounts to eligible low income customers would be better

Bill discounts

- Rather than rate options, bill discounts given to eligible low income customers would be better at assisting higher users
- Bill discounts would be fixed preset amounts
- Two levels of bill discounts, higher applicable to electric space heating customers (keep simple to assist administration)
- Bill discount should be separate line item on the bill
- Key issue is how discount is funded and who determines eligibility

Implementation costs

If a bill discount offered to low income consumers (new class) is used:

- The utility would need to make changes to its customer accounting system for purposes of tracking low-income energy customers.
- The utility may need to collect confidential information from government agencies regarding customers who apply for assistance under the program.
- The utility may need to submit additional reports to the regulatory authority concerning customer participation, so that the regulator can evaluate the effectiveness of the program.
- The utility may need to coordinate with social service agencies or charitable organizations to determine eligibility and what to do when a vulnerable customer faces disconnection
- Utility would need to dedicate employees and other resources to administering the program, which would add costs and result in increased rates
- Social agencies taking on the role of determining who eligible would reduce costs

Admin Issues

Key administrative/logistics questions

(a) how is the level of rate assistance determined;

(b) how frequently is the level of rate assistance modified;

(c) how do eligible recipients receive the financial benefits to which they are entitled;

(d) how is eligibility of individual customer updated to verify continued eligibility;

(e) how is the program monitored or audited to ensure compliance with all applicable statutes, rules, and directives from the regulatory authority;

Short term solution

- Are bill discounts just a band-aid solution?
- Should the focus be on addressing the causes, instead of administrating antidotes?
- Should there be more emphasis on programs to assist in lowering usage to reduce bills?
- Should social agencies be given additional funding?

Program Funding Options and Issues

Consultation on Energy issues for Low Income Consumers

Thursday September 25, 2008

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Program funding alternatives

Based on OEB Consultant - Concentric's research, the most common forms of funding for low-income energy programs include:

- federal government grants;
- state or provincial government grants;
- system benefit charges;
- voluntary or mandatory customer charges assessed on utility customers; and
- charitable contributions.

- Consultant study indicates the following sources:

Program funding alternatives

Country	Total Funding	Govt Funding	Utility Funding	Charity/ Other
United States	$5.2 billion	61.5%	34.6%	3.8%
United Kingdom	£3.7 billion	62.2%	37.8%	
Australia	$817.2 million	99.4%		0.6%

Program funding alternatives

Country	Total Funding	Rate Assistance	Energy Efficiency
United States	$5.2 billion	79.2%	6.2%
United Kingdom	£3.7 billion	62.2%	37.8%
Australia	$817.2 million	99.4%	0.6%

Who pays for the program

- Government grants cause taxpayers to provide funding
- System benefit charges cause all rate payers in province to fund
- Charges on distribution rates cause local rate payers to fund.

Funding Impacts

- Program funding impacts:
  - If through distribution rates, it would have an unfair impact on the customers of certain LDCs , which have a higher proportion of low income consumers (similar to the issue of provincial downloading of social programs onto municipal taxpayers)
  - If through a system benefit charge, costs of program would be spread across all customers in the province in portion to their energy consumption – much like RRA, DRC, WMC, etc (issue is whether it is fair the funds be in portion to use)
  - If through government funding, this would be most equitable allocation since income taxes are based on a goal to fairly allocate the tax burden