

October 17, 2008

Kirsten Walli
Board Secretary,
Ontario Energy Board,
27th Floor, 2300 Yonge Street,
Toronto, ON, M4P 1E4

Re: Consultation on energy issues related to low-income consumers, EB-2008-0150

Dear Ms. Walli

Direct Energy (DE) welcomes the Ontario Energy Board's (OEB) decision to invite stakeholder input in defining the OEB's role in assisting low income consumers with their energy bills. DE would also like to thank the OEB for the opportunity to participate in the stakeholder conference hosted last month. The discussions at the conference highlighted a number of important considerations in the development of a strategy to address the energy needs of low income consumers. What was clear is that fuel poverty is part of a wider social issue and that any solutions to the fuel poverty problem must form part of a wider government strategy. For that reason, DE believes that most of the feasible solutions identified during the conference fall within a broader poverty reduction strategy consultation. DE concurs with the position that the alleviation of poverty and the use of social assistance measures are the purview of Municipal, Federal and Provincial governments, and not that of an energy sector regulator. The role the OEB has to play in assisting low income consumers should therefore be limited for a number of reasons.

Firstly, it is government's responsibility to guarantee a fair redistribution of wealth amongst constituents. The government controls the tax system and with it, the capacity to raise the monies needed to fund social initiatives. It is also the government that is ultimately accountable to taxpayers on social deliverables. Also, only the government is able to quantify the total amount it spends on social benefits and ensure that all eligible recipients receive their respective fair share. The perennial issue of identification and effective targeting of those in greatest need is best left to the existing social agencies (albeit with a more co-ordinated approach) and these efforts should not be duplicated by energy sector participants.

Secondly, the OEB's ability to impact fuel poverty is largely limited to the distribution part of the electricity and gas rates that make up less than half of the average energy bill. The OEB could, for example, utilize a surcharge, be it a system benefit charge or a percentage increase in the distribution rates of residential consumers or indeed all consumers, to assist low income consumers. There would however be a significant impact on distribution rates in jurisdictions with a low number of residential consumers, or in areas with a high concentration of low-income consumers. Additionally, any form of rate cross-subsidization creates economic distortions, as it:

- Departs from traditional cost of service utility ratemaking principles
- Departs from fundamentals of economic regulation

- Implies significant cost shifts that will increase rates for other consumer classes
- Leads to inefficiencies (i.e. redundancy of costs among utilities and existing social service agencies)
- Causes undue/unjust discrimination amongst customers.

Moreover, mandating energy providers to identify low-income consumers creates issues respecting privacy and equity, as these companies have no such capacity or expertise to accurately assess eligibility based on a comprehensive range of criteria (income, government transfers, assets, etc). This is also effectively implementing a "hidden" tax on consumers. The program implemented by utilities in Pennsylvania, where subsidies to low income consumers were deliberately buried in distribution charges, would represent a reversal of the OEB's recent focus on increasing the transparency of rate making. It would also be an inequitable way to resolve this important issue.

DE believes that there are a number of solutions that could be utilised to address low-income energy related issues. All of these solutions however involve a range of stakeholders and most fundamentally the Provincial government. The OEB can be influential by providing the government with an understanding of the treatment of low income energy issues in other jurisdictions and the limitations on any solution provided by the OEB alone. In addition, DE would recommend that the OEB consider a number of other options:

1. Report to the Provincial government on the Low-Income Consultation

The OEB's report would outline the main recommendations and solutions proposed during the stakeholder conference on low-income consumers. This will highlight the need to address the energy related issues within the broader poverty context. The OEB's recommendations could include:

- OEB engagement in the Premier's Poverty Strategy Review to ensure energy-related issues are effectively addressed within that broader review;
- Comprehensive review of the social assistance formula to guarantee each eligible low-income household an affordable warmth standard during the high heating season. This requires revisiting available funding via district social agencies, distinguishing the heating allowance from the shelter allowance, adjusting the benefits to the cost of living per provincial area and to the trends in fuel pricing;
- Co-ordination of existing social agencies to allow for a Provincial one-stop-shop for low-income consumers that will provide information on all existing programs that are entitled to access. This co-ordinated approach will allow eligible consumers to be referred to energy providers' existing programs to avoid duplication in assessing eligibility criteria and identification;
- Review of retail electricity policy with a particular view to encouraging the elimination of energy subsidies and redirecting released funding to those measures assisting vulnerable consumers. The OEB should encourage the phase-out of the OPG Rebate in May 2009 and suggest the funding be used to further support low-income energy assistance programs;
- Review existing legislation and Codes to ensure no structural inefficiencies exist that inhibit conservation and energy efficiency programs (such as setting up a mandatory sub-metering and individual billing requirement for multi-family buildings);
- Identify and allocate continuous funding for an emergency heating fund covering arrears management, disconnection or security deposits. This could be an area to which OPG Rebate funds are diverted;

- Create incentives for voluntary private sector programs and innovative solutions that will not distort economic activities in Ontario and particularly in the energy sector; and,
- Finally, the government must improve awareness of available programs and speed up the delivery of available benefits to vulnerable consumers.

2. Revise existing regulated rate structures

The current regulated rates for gas and electricity, particularly the latter should be reviewed and amended to be more reflective of the true-cost of energy generally. This could address issues with the existing rate structure, particularly in electricity, which limits incentives for conservation and energy efficiency.

A. Commodity rates

The structure of the RPP could be addressed over time to ensure more accurate, cost-based price signals are received by RPP-eligible consumers. In the interim, until a more appropriate regulated rate structure can be designed, the RPP structure could be modified. The second tier of the RPP should be priced so as to provide a more market-based and marginal cost price signal while the first tier of the RPP would have prices near current levels to continue providing sheltered electricity pricing for low-income consumers. These consumers would still be exposed to a more marginal cost-related second tier price, encouraging conservation, while the bulk of their consumption would be charged at the lower rate. Such a program could be funded through the diversion of other existing subsidies to low income programs such as the OPG rebate (if it is not phased out entirely).

B. Distribution rates

The OEB should continue to support utilities' conservation initiatives and the delivery of customized programs assisting low-income consumers. Enhancements could however be made to the way these programs are delivered, including the encouragement of greater private sector participation. This will allow the efficient and timely delivery of programs and avoid any over-resourcing by utilities to support implementation.

The OEB could also consider developing, in conjunction with utilities and retailers, special rules on customer service such as disconnection/reconnection policies, and arrears management payment schemes for low-income consumers referred by district social agencies.

3. Guidance to the OPA

The OEB should also work with the OPA and the Provincial government to ensure this agency has effective and transparent processes in place to allow access to all available conservation and energy efficiency funding. There is a need to develop energy efficiency and conservation programs targeted to low-income consumers, and consider all delivery channels in addition to the current preference for utility involvement. The delivery of these programs should focus on private sector participation to foster innovation and ensure efficient and cost-effective implementation. The private sector has had difficulty accessing OPA funding to date due to program design restrictions and onerous contracting requirements.

DE has been pleased to participate in the OEB's consultation on low-income energy issues. The consultation highlighted that this is an issue which requires solutions much broader than the

OEB's mandate will permit. DE has outlined a number of areas where it believes the OEB could have a meaningful impact on this important issue. In any recommendations made, DE respectfully encourages the OEB to assist in the development of a solution to low-income energy issues that is supportive of competitive and open energy markets, that limits distortions on price signals to consumers and ensures fairness and transparency in rate setting. While the OEB does have a role to play in helping to progress the low-income energy agenda, the overall problem of fuel poverty in Ontario should be addressed by the Provincial government as part of a wider poverty reduction strategy. DE therefore respectfully encourages the OEB to engage the Provincial government and other key stakeholders in addressing this issue within this wider strategy to address poverty across Ontario.

Please do not hesitate to contact me if you have any questions.

Yours faithfully

A handwritten signature in black ink, reading "Chantelle Bramley". The signature is fluid and cursive, with the first name "Chantelle" written in a larger, more prominent script than the last name "Bramley".

Chantelle Bramley
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