Universal Energy Care for Ontario Consumers

As one of the leading non-profit organizations in Ontario helping low-income households invest in energy-efficiency measures in order to reduce their energy bills and greenhouse gas emissions, EnviroCentre was pleased to participate in the recent Ontario Energy Board ("Board") consultation on energy issues related to low-income consumers and to modify its positions as a result.

Although very informative, the consultation suffered from a lack of focus on measures within the mandate of the Board and from a defensive positioning of some participants who appeared reluctant to recognize that maintaining the *status quo* is no longer an option. Perhaps the most glaring example of this was the assertion that utility rate setting principles dating from the 1950s must still be respected. Principles and procedures developed when electricity was often considered to be too cheap to meter should be revisited to reflect the many economic, social and environmental changes that have occurred since then. As its Chair has recently pointed out, "The Board believes that regulation needs to evolve from its half-century-long history of being a complex, detail driven exercise between the regulator, the applicant and the intervenors."[1]

Those intervenors who maintain that this matter should not be further pursued by the Board should realize that from a judicial and political point of view, that question has been settled. The Court has ruled that the Board can do something that the government clearly wants done. The Board must now decide how to more forward and implement electricity and natural gas rates that are "fair, reasonable and timely" for all consumers.

Rate Principles versus Social Tariffs

James Bonbright was born in 1891 and published *Valuation of Property* in 1937, during the Great Depression. His 'seminal' work, *Principles of Public Utility Rates*, was published in 1961 and is now out of print. He died in 1985 but his legacy lives on in the memory of simpler days, when 'freedom from controversies' and 'revenue stability from year to year' laid the foundation for the American dream.

Although many things have changed since then, some still believe that "cost pricing" enables people and companies to consume 'whatever amounts they like as long as they are made to pay for the costs'. If those principles had been respected since their publication in 1961, Ontario taxpayers would not be

[1] Speech to the Ontario Energy Association Annual Conference, Toronto, 17 September 2008, by Howard Wetston, Q.C.

stranded with over $20 billion in financial debt, an environmental debt that has yet to be put on the books, and a social debt that is only now being acknowledged.

Intervenors were right, however, to raise concerns about rate discounts and other measures that do not promote energy conservation, as they are neither "fair" to future generations nor "reasonable" to present ones. Intervenors who rejected any role of the Board in low-income support programs were also right to conclude that 'the Board should continue to encourage the development of conservation programs as a sustainable way to reduce the bills of low-income energy consumers'.

Exempting fixed charges is the most responsible way to help low-income households save money without reducing their incentive to save energy.[2] In fact, because the commodity charges would represent a higher proportion of their bills, their incentive to conserve would be even greater. That is why EnviroCentre recommends that the Board:

- **Exempt qualified low-income households from fixed charges, including reconnection and interest charges, for both natural gas and electricity.**

One of the most sensitive issues raised during the consultation was the very existence of separate rate classes for low-income consumers, as opposed to reduced rates or subsidies. For some intervenors, the difference is semantic, not substantial. For others, basic principles are at stake.

Reference was made during the consultation to the Public Utility Law Project (PULP) of New York, a non-profit organization formed in 1981 in response to the frequent loss of utility service by low-income households and rising energy prices. It recently referred to Con Edison's "Low Income Rate" as a "well kept secret", noting that the utility in question does not actively promote this discounted rate.[3] Under the "Old School" approach, this program would not be considered to be a "separate rate class" despite the fact that lower rates (through discounts) are made available to a distinct sub-class of customers based on specific criteria. For all practical purposes, however, it results in the kind of lower payments now being implemented through "New School" approaches in this field, meaning that intervenors should no longer argue that such approaches are discriminatory or illegal.

[2] "Discounts that waive or reduce the fixed monthly charge usually are perceived as more equitable because they improve the affordability of electric and natural gas service for low-income customers without regard to energy consumption levels". *Review of Low Income Energy Assistance Measures Adopted in Other Jurisdictions* ("Concentric Report"), 2008, page 26.
[3] August 7, 2008, www.pulpnetwork.blogspot.com

PULP advises that a major utility in the State of New York, National Grid (formerly Keyspan), has a reduced rate sub-class for low-income natural gas customers, as distinguished from a low-income rate discount contained in the general residential rate class. Income-eligible customers may qualify for a reduction in the gas delivery cost on the bill. To be eligible, an applicant must be a National Grid customer and receive one or more of the following benefits:

- Home Energy Assistance Program
- Medicaid
- Food Stamps
- Temporary Assistance for Needy Families
- Public Assistance
- Safety Net Assistance - Public Assistance
- Supplemental Security Income
- Veteran's Disability Pension
- Veteran's Surviving Spouse Pension
- Child Health Plus

PULP also advises that the most progressive "New School" approaches to low-income rates are to be found in California, the same state that the Province of Ontario often cites as a role model for energy-efficiency in the building and automobile sector. Pacific Gas and Electric (PG&E) offers a 20% discount to households that meet the requirements for CARE (California Alternate Rates for Energy):

- the bill must be in the same name as the beneficiary;
- the beneficiary must live more than half of the year at the address where the discount will be received (not for second homes);
- the beneficiary may not share an energy meter with another home;
- Only the beneficiary's spouse can claim the beneficiary as a dependent on a tax return;
- the beneficiary must notify PG&E of any income changes;
- the beneficiary's household must meet the following income eligibility requirements:

Number of Persons in Household more than 50% of the time	Maximum Total Annual Income
1 or 2	$30,500
3	$35,800
4	$43,200
5	$50,600
6	$58,000
7	$65,400
8	$72,800
9	$80,200
10	$87,600
Each Additional	$7,400

A household's income includes money from all household members, from whatever source derived (taxable or non-taxable), including but not limited to the following:

- Wages or Salaries
- Interest and/or Dividends from:
  - Savings Accounts
  - Stocks or Bonds
  - Retirement Accounts
- Unemployment Benefits
- Rental or Royalty Income
- School grants, scholarships or other aid used for living expenses
- Profit from Self-Employment (IRS Form Schedule C, Line 29)
- Disability Payments
- Workers Compensation
- Social Security, SSI, SSP
- Pensions
- Insurance Settlements
- Legal Settlements
- TANF (AFDC)
- Food Stamps
- Child Support
- Spousal Support
- Cash and/or Other Income

Similar rates are now available in the United Kingdom according to a review by its Office of Gas and Electricity Markets (OFGEM) of voluntary initiatives to help vulnerable utility customers.[4] 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.

There is thus considerable evidence from the United States and the United Kingdom of low-income energy rates and perhaps even of separate rate classes. This analysis also shows quite clearly, however, that low-income rates are cumbersome, if not "messy", in other jurisdictions and would almost certainly be very inefficient to administer in Ontario.

In the same way that universal health care provides basic health care services to all Canadians, universal energy care should provide basic energy services to all people in Ontario at a subsidized price. That is why EnviroCentre recommends that the Board:

- **Refine the existing thresholds for electricity consumption in Ontario so that the base or Conserver threshold covers basic consumption levels for Conserver households, and apply similar thresholds to natural gas customers**.

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

This would mean that Conserver families, living in energy-efficient homes, would be charged lower rates designed to cover basic electricity consumption up to annually adjusted summer and winter thresholds. Similar thresholds would need to be established for natural gas consumption. Any consumption above these Conserver thresholds would be charged at much higher rates. This would provide a strong incentive for all households to conserve energy by reducing its use for non-basic needs.

This would maintain the pressure to invest in energy-efficiency housing and appliance upgrades across the Province in both social and private housing. Social welfare programs already in place would accommodate larger, low-income households. This would open the door to many more households spending about 10% of their income on energy, which would be "fair, reasonable and timely" given the imperatives to reduce greenhouse gas emissions through more accurate pricing of energy.

Energy Assistance Programs

A disproportionate amount of time was spent during the consultation discussing energy assistance programs for low-income consumers, both at home and abroad.[5] They are a 'patchwork of programs', with differing eligibility criteria, not available across the Province or on a regular basis. According to data submitted since the consultation by the gas utilities, about 1,300 households had an average of $360 of arrears covered by Winter Warmth, the most well-known energy assistance program for low-income consumers in Ontario. LDC participation in this program is probably similar in size and scope.

Although these programs are obviously appreciated by the relatively small number of people that benefit from them, they usually do not help them reduce their energy consumption or even understand why their bills got so big. Little data is available on the actual results of these programs, notably how many beneficiaries fall back into arrears. It is clear, however, that programs assisting with paying off arrears enable utilities to avoid disconnections during the winter and also act as debt collection agencies. An analysis of bad debt write-offs by utilities in Ontario, which could be done despite the lack of data on low-income clients held by utilities, might show that losses from low-income consumers are lower than losses from higher-income consumers because Ontario's social welfare system appears to pick up most of the tab for most low-income consumers.

[5] The Concentric Report indicates that the United States and Australia appear to have spent 79% and 99% of their funding, respectively, to pay off arrears instead of to help people invest in energy-efficiency measures.

The data submitted to the Board on utility contributions to these programs needs to be compared to the contributions of other parties, notably municipalities, which are estimated to be much higher. The total amounts invested in energy assistance programs for low-income consumers would then need to be compared to the total amounts made available to higher-income consumers.

Every year, the ecoEnergy program provides thousands of higher-income households in Ontario with up to $10,000 in ecoEnergy grants, including up to $5,000 from the Province of Ontario. Many of these households take advantage of this program to install high-efficiency furnaces that industry sources indicate would have been bought anyway, have already been regulated off the market for new homes, and will soon be regulated off the market for existing homes. These 'free-riders' help thousands of higher-income households reduce their energy consumption and save money year after year. They are a glaring example of discrimination in the allocation of energy subsidies, given the fact that only hundreds of low-income households benefit from programs that provide little to no help reducing their energy consumption, condemning them to deal with higher energy bills in the future.

That is why EnviroCentre recommends that the Board:

- **redirect all CDM and DSM funding under its jurisdiction to low-income households and require that they be cost-effective but not TRC+.**

This would provide the funding and focus needed to retrofit sub-standard social and private housing and to invest in energy-efficient appliances for all low-income households across Ontario.

Fair, Reasonable and Timely Energy Rates

Low-income households clearly spend a higher percentage of their total income on energy than higher-income households but one can assume that most low-income households spend less on "water, fuel and electricity" than the average household in Ontario, or $2,392 per year.[6] The higher amounts spent on heating and cooling because of poorly insulated homes and inefficient heating and cooling systems appear to be compensated for by smaller homes, fewer appliances, and the "discomfort premium" paid by all too many low-income households, i.e. lower heating and cooling levels than those in the much bigger homes of higher-income households. Even so, the $2,392 average expenditure per household represents only 6% of the $40,000 LICO[7] rate for a family of four in most parts of Ontario.

[6] Statistics Canada, 2006
[7] Low Income Cut Off rates, established by Statistics Canada, vary by location across Canada.

In other words, energy expenditures for most low-income households in Ontario are still a small part of their overall budget. EnviroCentre's data shows that the average electricity bill of low-income households in and around Ottawa, including space and water heating, is $3,487 or 8.7% of the total household income for a family of four under LICO.[8]

Except for a very small number of households, the term "energy poverty" is thus an oxymoron in the Canadian context. As Table 1 shows, Canadians consume far more energy and electricity per capita than people in any other country studied by the Concentric Report, and between five and seven times more than the world average.

Country	**Total energy consumption** (kg of oil equivalent per capita)	**Total electricity consumption** (kWh per capita)	**cents per kWh**
Canada	8,300	17,209	10.0
United States	7,794	13,242	10.4
Finland	7,218	16,427	16.7
Australia	5,723	10,653	8.0
New Zealand	4,378	8,945	11.0
France	4,518	7,585	19.0
United Kingdom	3,918	6,201	16.3
Spain	3,228	5,700	18.3
World average	1,674	2,436	n/a
Italy	3,127	5,580	36.0
Denmark	3,832	6,601	39.0

Table 1. Energy consumption levels in Concentric Report countries.
Consumption data from EarthTrends, World Resources Institute, 2006-2005.
Price data based on more diverse, less reliable sources.

There have also been stark changes in greenhouse gas emissions per capita between 1990 and 2005: they *increased* by 9.8% in Canada but *decreased* by 9.7% in the United Kingdom.[9] From an environmental, social and economic point of view, there is no justification for a rate structure that continues to promote the most wasteful energy consumption patterns in the world, even among low-income households.

Although it is true that the Court made its ruling in the context of low-income consumers, many references to its ruling note simply that the Court held that the Board has the authority to set rates "according to ability to pay". The ruling has commonly been interpreted as opening the door to lower

[8] Based on an analysis of 60 low-income homes before they received weatherization upgrades in 2006 and 2007.
[9] 2007 data from the International Energy Agency

rates for low-income consumers but it could also be interpreted as opening the door to higher rates for higher-income consumers based on their greater ability to pay.

The International Law Office went so far as to announce in its 9 June 2008 online newsletter that the Board “can depart from traditional rate-making” and the Industrial Gas Users Association (IGUA) repeatedly notes that although the Board is not obliged to do anything as a result of the Court’s decision, it could “consider ability to pay in setting rates”, an interesting observation given the greater ability to pay of most companies represented by IGUA.

Spending 10% of household income on energy should become the norm, not just for low-income households, but for all households in Ontario. That is why EnviroCentre recommends that the Board:

- **Maintain subsidized rates for consumption below the Conserver thresholds but announce a phase-in of much higher rates for consumption above the Conserver thresholds, so that all the economic, environmental, and social costs of electricity and gas consumption will be accounted for.**

Such an approach will accelerate the installation of sub-meters for all space conditioning and water heating in Ontario. To facilitate the transition to a Culture of Conservation in Ontario, EnviroCentre also recommends that the Board:

- **Appoint an Ombudsperson for energy consumers in Ontario;**
- **Provide better protection from direct energy retailers;**
- **Urge the Minister of Finance to exempt qualified low-income households from the Debt Retirement Charge;**
- **Prohibit utility disconnections during the heating season for all residential consumers and for patients under medical care.**

Dr Dana Silk
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