



October 31, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

**Subject: EB-2008-0150 - Consultation on Energy Issues Relating to Low Income Consumers
September 22 – 25, 2008**

Dear Ms. Walli,

In follow-up to the issues and recommendations raised during this informative stakeholder consultation, the Coalition of Large Distributors (“CLD”), consisting of Enersource Hydro Mississauga, Horizon Utilities Corporation, Hydro Ottawa, PowerStream, Toronto Hydro Electric System and Veridian Connections, wish to provide the following comments.

Before proceeding with specific comments on the potential role of the Ontario Energy Board (“the Board”) and, by association, electricity distributors, we wish to acknowledge the time and effort committed by both the Board and participants in furthering all stakeholders’ knowledge of the challenges faced by low income consumers, and in turn, their service providers. The broad range of stakeholders and operational jurisdictions provided insightful and innovative responses to this significant and challenging issue that impacts the communities we serve.

With respect to the questions, which guided the four-day consultation, we have opted to focus our comments on what we believe are the key, underlying themes that evolved during the presentations.

Preface:

Without question, poverty is a serious and pervasive issue, which negatively impacts society as a whole. Any reasonable opportunities that exist to alleviate some of the financial burdens of low income consumers should continue to be undertaken, as distributors (and others) highlighted during this consultation.

Although the public generally perceives electrical service as an essential service, the business model and risk management practices under which energy providers must operate do not fully reflect this concept.

Meanwhile, social agencies are highlighting that the gaps between living affordability and government financial assistance are growing ever wider, thereby, impacting a larger segment of our population with greater severity. This brings to the forefront the question:

Role of the Board:

To what extent should the Board be involved in areas of social policy, given the Divisional Court's decision to enable the Board to consider rate affordability when setting rates?

Regulator Considerations:

In order to respond to this question, it is recommended that the Board:

- reflect on its mandate of setting just and reasonable rates based on cost causality, while securing the reliability of the electricity (and gas) service in Ontario;
- uphold the objective of rate transparency;
- ensure any initiative under consideration is efficient, effective, flexible, stable, sustainable and demonstrates a reasonable return on investment;
- be mindful that the associated costs do not detrimentally shift the burden to non-targeted consumers;
- avoid duplication of effort by leveraging existing support networks, expertise, services and programs to the extent possible;
- determine the magnitude of assistance needed;
- identify best practices within the Ontario market and other jurisdictions;
- place greater focus on longer-term, proactive solutions over reactive emergency measures;
- ensure the benefits are measurable;
- be mindful of the consumer privacy issues that need to be managed.

Consultation Highlights:

The four-day consultation raised awareness of the challenges social agencies and service providers face in maintaining the basic living needs of low-income consumers.

These sessions highlighted that, since poverty is a very broad and complex issue, a patchwork of services have evolved that can be difficult for consumers to access and may not effectively or efficiently address the systemic poverty issues of the consumers who are seeking or need assistance.

The consultation also revealed that there is no national definition of poverty or low-income, therefore, identifying and quantifying the population that is in need of social intervention programs and measuring the effectiveness of related expenditures is problematic.

As well, beyond electricity (and gas) distributors, the business practices of retailers, landlords, smart sub-metering companies and other energy providers also impact the energy costs and living options of low-income consumers. Within the electrical (and gas) industry, inconsistency in account management practices, customer service standards and the associated costs of collection activities were identified as issues that need to be addressed.

Though the option of rate-related discounts was explored, the general consensus was that there were other more effective responses that would not compromise the principles of rate design, equity and cost causality. With regard to the latter principle, advocates for low income consumers raised concern over the forthcoming implementation of time-of-use billing and the potential limitations low income consumers may have over costs and rate stability, particularly for those living in rental accommodations and billed through a smart sub-metering provider.

It was widely accepted that the single most effective initiative is that of conservation and demand management programs (“CDM”). While recognizing that such programs often take significant time and capital to develop and implement, opportunities also exist to deliver simpler initiatives that will initiate the conservation culture within this targeted population in the shorter-term. Small victories will promote conservation and create the necessary momentum to pursue and implement a wider range of programs.

As the experiences of the presenters revealed, low-income consumers are best served through proactive and well-coordinated programs. That is not to say that the need for reactive, emergency relief will be eliminated. However, placing greater emphasis on policies and programs that support early identification and intervention of payment issues can significantly reduce consumer hardship.

Recommendations:

Within the consultation, some participants indicated that the financial resources of low-income consumers are generally insufficient in providing the basic necessities of housing, which includes maintaining access to utility services, such as electricity, gas, oil and water. Although this is a complex social issue, the scope of which is beyond the mandate and expertise of the Board, and the distributors it regulates, we do believe there are opportunities to have a supporting role. It should also be noted that a task force has been established by the Government to develop an overall Poverty Strategy.

The Board should be guided in any initiatives it undertakes or mandates in this area by the following objectives:

- Cost avoidance (distributor and consumer)
- Cost recovery
- Efficiency and effectiveness (cost, responsiveness and result)
- Sustainability
- Transparency
- Flexibility

- Equity
- Stability and Predictability

Cost recovery is a fundamental issue for distributors. To the extent that the Board directs utilities, under either an IRM or Cost of Service regime, to incur expenses that are not part of the existing revenue requirement, and are the result of new low-income initiatives, then mechanisms will have to be in place to provide for the prompt recovery of those newly-mandated expenses.

Alleviation from the threat of disconnection was identified as the main hardship faced by many low-income consumers during the consultation. The following recommendations are offered as a means to mitigate this issue:

1. Co-ordination and Communication

As the consultation identified, establishing a joint working committee comprised of the distributor and social service agencies would increase understanding of the mutual issues and opportunities available to serve vulnerable consumers in a more proactive, coordinated and administratively-efficient manner. One initiative that was highlighted during the consultation was the existence of a utility service that provides energy cost estimates to consumers for properties they are considering renting or purchasing.

Recognizing the need to comply with prevailing privacy laws, we believe opportunities do exist to provide general bill information to consumers or social service agencies, which may assist in identifying affordable housing, prior to customers taking occupancy. Another initiative some distributors have adopted is to dedicate existing resources within their customer service functions to liaise with social agencies. These staff can focus on the specific issues facing low-income consumers and develop a strong knowledge base and working relationship with the social agencies that serve them. Support-programs such as these are worthy of consideration.

2. Early Intervention

Disconnection should be avoided where possible. This could be achieved by encouraging caseworkers and consumers to identify financial problems to their service providers as soon as they become known. By identifying issues early, distributors can offer more affordable solutions to the consumer in terms of payment extensions and avoid associated collection costs. Consumers should be encouraged to make realistic payment arrangements so they can be successful in maintaining them – which is key. Another practice, which is working well in a number of areas, is to offer a monthly payment plan (e.g., budget billing) whereby; social agencies direct a portion of their client's income to their hydro or gas account, monthly. In turn, the utility monitors the account balance and advises of adjustments, as necessary. Intervention programs should not require consumers to be in crisis before a financial solution can occur. A crisis, by definition, should be sudden, rare and unexpected. When consumers are continuously facing the threat of disconnection, it is indicative that other processes are failing.

3. Extreme Weather or Medically-Restricted Disconnections

Although most distributors weigh weather conditions and, when known, medical conditions before taking action to disconnect a service, distributors rely on this last-resort practice as a means to minimize the risk of bad debt. Often, the customer responsible for the service is no longer an occupant and this may be the only means the distributor has available to determine this. In extreme conditions, load limiters or load timers are installed to provide a base level of service.

If, as in the case of Quebec, Ontario distributors are not permitted to disconnect during the winter months, then low-income consumers (as well as others) may divert their funds. Once the moratorium is lifted, they may face a significant financial debt and risk of disconnection. Given the availability of equalized payment plans, low-income consumers would not be well served by having the option of deferring their payments for five to six months. It is expected that bad debts would increase accordingly and factor into a future rate application. For these reasons, the utilities do not support a compulsory suspension of disconnections during winter months. As noted above, care is taken by distributors to mitigate known risk factors.

4. Standard Practices

During the consultation, concerns were raised about inconsistent business practices among distributors. While it is important that there be some degree of alignment in the business practices of electricity distributors for benchmarking purposes, there must be allowance for flexibility that accounts for local demographics. To that end, a task force should be established to review and recommend best practices for the key business activities that impact consumers. In fact, many distributors have already undertaken such activities. This could dovetail with the existing OEB consultation on Customer Services, Charges and Non-Payment Risk. Programs that are not currently mainstream offerings may also be given consideration, such as prepayment schemes.

5. Rate Discounts, Service Charge and Deposit Waivers

The CLD has strong concerns with the use of rate discounts or other blanket financial waivers as a potential means to sustain the connectivity of low-income consumers. This is contrary to the existing ratemaking principles and related obligations to set just and reasonable rates based on cost causality, while exercising prudence in managing bad debt risk. Arbitrarily shifting these costs to other customer classes neglects to recognize the inter-dependencies of each customer class in terms of financial impact. Furthermore, distributors are not equipped or positioned to assess and manage the ongoing eligibility of low-income consumers.

For these reasons and others articulated by distributors during the consultation, it does not appear that rate discounts or other blanket financial waivers would be effective or equitable approaches to the problem of electricity affordability for low-income consumers.

There may be merit in assessing, on an ongoing basis, the co-relation between security deposits and bad debt. As the consultation identified, this risk management practice is costly to administer, while drawing on the social funds available to assist low-income consumers. Perhaps there are other opportunities to

mitigate that risk which can be explored. Where such risk cannot be managed through other means, deposits need to remain on account until the risk profile or exposure changes.

6. Smart Sub-Metering and Time-of-Use Rates

The vulnerability of low-income consumers to unpredictable electrical costs was raised during this and a previous consultation on Smart Sub-Metering. Although the existing regulatory framework does not allow the Board to regulate the rates charged by smart sub-metering providers, we believe there is an opportunity and responsibility for both the Board and distributors to ensure the public is educated on this service option, so they can adequately prepare and adapt.

7. Conservation and Demand Management Programs

The potential of implementing conservation and demand management programs is significant. While typically costly to implement, the positive long-term benefits assist both low-income consumers and society as a whole. Again, there is a need for greater industry co-ordination, investment and delivery of targeted programs to low-income consumers and we believe the Board has an opportunity to influence this goal by approving applications by distributors for local conservation programs. Since the Ontario Power Authority (“OPA”) has the provincial mandate to assess, fund and verify CDM programs, there is a need to avoid duplication of effort in performing means testing and sourcing funds. Opportunities to synergize existing CDM resources, while implementing locally developed programs should be pursued. As this consultation also highlighted, engaging the consumer early in both developing and implementing conservation programs is key to success. Again, there is an opportunity for the Board and distributors to engage consumers and other stakeholders at a local level.

8. Financial Support to Local Community Agencies

Local charitable organizations such as the United Way, Salvation Army, Red Cross, et cetera, are often approached by low-income consumers who are experiencing financial difficulty. Many of these agencies provide financial assistance to consumers who cannot maintain their essential services, such as electricity, gas or water. The Winter Warmth Program is one example. In fact, many electricity (and gas) distributors currently provide such assistance. We support the continued inclusion of the costs of donations to such programs in rates. Targeted programs like this ensure the intended support is reaching those who are at risk.

Summary:

Addressing the needs of low-income consumers is a much broader social issue that requires a collaborative and coordinated effort of various levels of Government and providers of services to this targeted group. It is expected that the Poverty Strategy, once finalized, will effectively consolidate the efforts of social service agencies to the maximum benefit of the consumers they serve and the general public, as a whole.



Meanwhile, there are opportunities to make existing programs and practices, better. Some, such as “early intervention practices” could be pursued without delay. Others, such as improved “co-ordination and communication” could be achieved within a reasonable timeframe.

The recommendations that are ultimately adopted are expected to include both reactive and proactive measures. There will be a need to phase-in changes, with the likely result that the reactive solutions will be relied on more at the outset, until the longer-term initiatives and benefits can be realized.

As this consultation identified, this issue is broad and complex. There is an opportunity for distributors to contribute to an overall solution, without compromising the principles of rate design that has served the public well. This consultation has been an important first step in raising awareness and ensuring that electricity distributors continue to respond effectively to the needs of their consumers as this industry evolves.

Thank you for the opportunity to participate in this important initiative.

Yours truly,

Original Signed by

Lynne Anderson
Chief Regulatory Affairs and Government Relations Officer
Hydro Ottawa

On behalf of the CLD