TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	March 6, 2017
Agenda Class:	Discussion
Last reviewed by: TB/MBC (March 1, 2017)	**Tracking to:** Fast Track Cabinet (March 8, 2017)

SUBMISSION TITLE:	Affordability Fund

I. DECISION BEFORE THE BOARD

- Approve funding in 2016-17 to support the Affordability Fund.

II. RECOMMENDATIONS:

• Approve $100,000,000 in 2016-17 offset from the Treasury Board Contingency Fund to support the Affordability Fund.	*Board Judgment*

III. FINANCIAL SUMMARY

$ Millions	**2016-17**	**2017-18**	**2018-19**
Initiative cost requested	200.0	0.0	0.0
Initiative cost recommended	100.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact (C-fund)	100.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

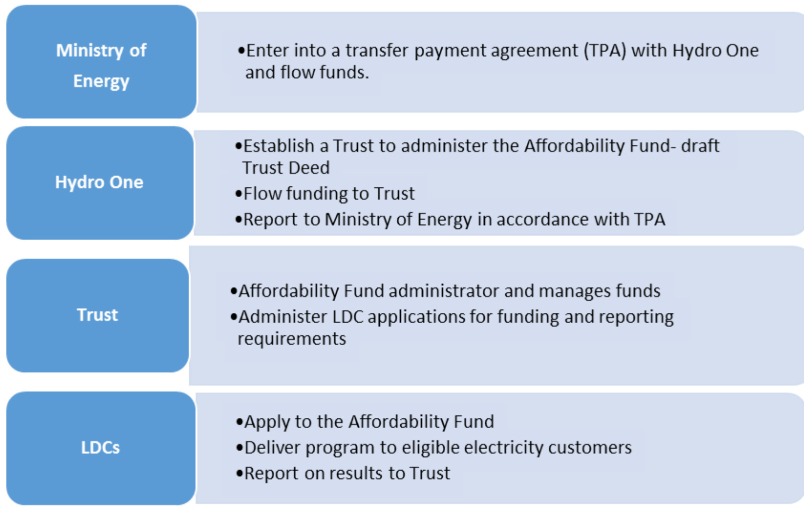
This item was part of the suite of initiatives before TB/MBC on March 1, 2017 related to electricity price mitigation. The Affordability Fund was minuted as follows:

> Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.
>
> a) Approved a commitment to provide up to $200,000,000 on a multi-year basis.
>
> b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

The Ministry's current request is for $200,000,000 in 2016-17 offset from the Treasury Board Contingency Fund. The Affordability Fund would be available to LDCs only and would target those electricity customers who do not qualify for low-income conservation programs (e.g. The existing Home Assistance Program (HAP), delivered by LDCs under the Conservation First Framework) and who have difficulty paying their electricity bills.

- Ministry indicates that, based on LDC-reported data, 60,000 Ontarians at risk of disconnection from their electricity service each year. (TBS staff note a profile description or details of these consumers is not provided by the Ministry, and the Ministry has clarified this profile data has not been reported by LDCs to the OEB).
- Eligible customers will be identified by LDCs and could include those in frequent arrears or facing disconnection. Priority would be given to homes primarily heated by electricity. Appendix C outlines the Ministry's eligibility principles for the Fund.

To establish the Fund, the Ministry of Energy intends to enter into a Transfer Payment Agreement (TPA) with Hydro One. The TPA would include terms for Hydro One to establish a non-controlled Trust to administer and distribute funds to LDCs across the province on the basis of principles established by the Province and implemented at the discretion of the Trustees. The Trust would distribute funds to LDCs across the province, including Hydro One, at the direction of the Trustees.



- The Trust's governing principles will be outlined in the Trust Deed and the Trust will be managed by a Board of Trustees.
  - The Trust Deed will be drafted by Hydro One with input from the province and others in the LDC sector. The goals and principles of the Fund will be outlined in the Trust Deed and be consistent with the TPA, but the Trustees will have the discretion as to how to achieve the goals in alignment with the principles.
- The Trust would include Trustees possibly from the government, from other LDCs across the province and other independent Trustees, but not be controlled by the Province.
- The Trustees will have the discretion to hire Hydro One or other entities as service providers to assist with administering the Fund.
- The Trust would distribute funds to LDCs across the province (including Hydro One) at the discretion of the Trustees.
- LDCs would identify their respective eligible electricity customers and deliver the funding in accordance with the program.
  To protect public interest, it is expected that the Trust Deed will reflect an expectation that accountability provisions be included in funding provided to the LDCs which are consistent with those required under the TPAD.

Since the submission was received centrally, the Ministry has been working with the Office of the Provincial Controller Division (OPCD) on appropriate funding arrangements (Providing the funding to the Trust directly versus providing funding to Hydro One, who would provide it to the Trust) to ensure that the Province's and the Auditor General's respective abilities to audit the use of the funds is maintained under the Province's Transfer Payment and Accountability Directive and the Auditor General Act. The Ministry is currently working with H1 and its external advisors on this topic, and further details will be available shortly. At this time, it is not anticipated that such changes would impair ability to complete the transfer by March 31st.

The Ministry indicates the measures funded through the Fund would be similar, or build on those available through the Home Assistance Program.

- The existing Home Assistance Program (HAP), delivered by LDCs under the Conservation First Framework, provides efficiency upgrades and education, at no cost, to help improve the energy efficiency and comfort of their homes and help customers manage their electricity bills. Program eligibility is aligned with other low-income support programs such as the OESP.

Affordability Fund recipients could receive measures (e.g. energy-saving light bulbs, programmable thermostats, cold climate air source heat pumps) ranging from $3,000 to $5,000 per customer, at no or minimal cost. As an illustration, with $200M, the Ministry indicates the estimated reach of the fund could be 15,000 to 65,000 households, depending on measures and uptake. The large range takes into account the potential take-up of more expensive measures such as cold climate air source heat pumps which can range in cost from $7-$13K, and which can achieve significant electricity savings.

Performance Measurement:

The submission indicates that Hydro One would provide support to the Province in exercising its oversight of the program by collecting reports from the LDCs on behalf of the Province and/or submitting regular progress reports on program participation. The TPA with Hydro One will include details on reporting requirements. There is currently no mention of outcome measures in the submission but such details are expected to follow as planning progresses. The Ministry notes the government can outline broader principles and intended outcomes but specific outcome targets (like helped X homes result in Y savings) would be seen as prescriptive and in conflict with the Trust model.

The Ministry will create a grant agreement (i.e., A Transfer Payment Agreement) consistent with OPCD's guidance on one-time transfers and TPAD.

Risks:
Appendix C is the risk table submitted by the Ministry. Many of the Ministry's cited risk focus on the quick timing to put the program in place in 2016-17, oversubscription of funds, and underspending.

The Ministry also notes moderate risk with a high impact from flowing the funds into an independent trust account also for limited accountability, oversight, and transparency provisions. TBS staff note the list of accountability provisions provided by the Ministry above does not explicitly mention (nor does the submission elsewhere) the Transfer Payment Accountability Directive (TPAD) principle – Value for money is expected in the expenditure of government funds. TBS staff noted OPCD's one-time guidance is implicitly aligned with TPAD including value for money expectation.

TBS staff notes moderate risk around geographical representation of members in the Trust, lack of program design details (e.g., LDC and customer eligibility criteria) and lack of articulation of what success looks like for the program to ensure accountability. With the non-application based program structure, eligibility and selection criteria needs to be clearly established to pass the equity test.

Financials:
The Ministry is proposing that the Fund be provided through a one-time payment of $200M in 2016-17 offset from the Treasury Board Contingency Fund.

- The Ministry indicates providing the $200M immediately provides LDCs with the required upfront commitment to apply for funding and initiate planning and implementation activities.

- Administration expenses will be in accordance with the Transfer Payment Directive.

- The Ministry expects that the funds through the Affordability Fund will be deployed within a year (funds are expected to be exhausted by March 31, 2018). The TPA will include the option to extend the original funding amount into future years in the event of under spending. The TPA will also include the option to incorporate potential future funding from the tax base. The Ministry intends to seek an exemption from the Cash Management Directive from the Ontario Financing Authority, MOF.

TBS staff note the March 1, 2017 minute was a commitment of up to $200M on a multi-year basis with direction to the Ministry Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

Given the high-level nature of the current submission without specific details from a pending TPA, nor a performance management framework in place to gather evidence to support evidence-based decision-making, it is recommended that only $100M in funding in 2016-17 be provided now (Of the multi-year $200M commitment) as it still demonstrates an upfront commitment. It also provides time to finalize program details and performance reporting framework and report back to TB/MBC on them by Q1 2017-18. For the 2018-19 PRRT, the Ministry can report back on Affordability Fund results achieved to date, and provide a value for money assessment, so that both can also act as evidence-based support for a future funding request.

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Date:	March 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEMD, TBS		

Appendix A: Proposed Minute

Approve providing $100,000,000 in 2016-17 for the government funded Affordability Fund.

In this regard,

i) Approve a Treasury Board Order, under the authority of the Financial Administration Act, in the amount of $100,000,000 in Green Energy Initiatives Transfer Payment, under Energy Development and Management (Vote/item 2902-1), offset by the Treasury Board Contingency Fund, to establish the Affordability Fund.

ii) Direct the Ministry to

   a) Report back to TB/MBC by Q1 2017-18 with final program details, and a performance management framework including intended outcomes.

   b) Report back to TB/MBC through the 2018-19 PRRT with spending to date, results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request along with impacts to the Province's fiscal plan.

   c) Provide regular updates to TB/MBC through regular reporting process including quarterly reports.

   d) Work with Cabinet Office and the Office of the Premier to develop a communications strategy.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE		Fiscal Plan Basis			TABLE B1 Appropriations Basis
$ Millions		**20116-17**	**2017-18**	**2018-19**	**2016-17**
Initiative cost recommended		100.000	0.0000	0.0000	
Expense changes:					
Operating item – Green Initiatives TP	Oper	100.0000	0.0000	0.0000	100.0000
Total Fiscal Impact (draw from c-funds)		**100.000**	**0.0000**	**0.0000**	**100.0000**

APPENDIX C: AFFORDABILITY FUND PRINCIPLES

The Ministry has developed high-level principles by which the Affordability Fund will operate and will continue to refine these principles through discussion with all LDCs. LDCs are best positioned to provide further guidance on principles as they are closest to the customer and will be responsible for identifying the customers in need and delivering assistance to them. All LDCs will be able to apply to access to the Affordability Fund so they may address the needs of their customer base. Principles include:

- The purpose of the Affordability Fund is to assist electricity customers who do not qualify for low-income conservation programs, are struggling to pay their electricity bills, and are unable to make energy efficiency improvements to their homes without financial assistance. The Fund would offer these customers energy efficiency measures at no or minimal cost, providing LDCs with an additional tool to help customers in need to reduce their future electricity bills and avoid future disconnections.
- Trust and Trustees - The Fund is to be administered by an independent Trust. Trustees are to be representative and have relevant sector expertise.
- Allocation of funding to LDCs - Fund to be accessible to all LDCs on application basis, subject to consistent funding application and evaluation criteria.

Eligibility Principles:

- Customers who do not qualify for low-income conservation programs (i.e. are above Statistics Canada's Low-Income Measure).
- LDC has reasonable evidence to indicate that the customer requires financial assistance to pay for energy efficiency measures.
    - The Trust will be expected to consider the appropriate indicators for determining whether customers are reasonably in need. The Ministry does not expect that a new income threshold would be established, due to the administrative costs and timelines required to implement income-eligibility tests. The Ministry believes that other indicators available to LDCs would be sufficient.
- Customers may have triggered action by an LDC collection department (e.g., customers are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.).
    - Arrears are defined by the OEB as accounts that are 30 or more days past the 16-day minimum payment period.
    - LDCs have communicated that their customer care departments keep track of their customers who are in "frequent arrears" or "chronic arrears."
    - These terms are qualitative (i.e. do not refer to a set length of time or number of times customers are in arrears); however, generally ENERGY understands the bounds of these terms to be, on one end, customers who are in arrears for more than one billing period, and on the upper end, customers that have several thousand dollars in payments owing, accumulated from a number of missed or partially missed billing periods.
    - While arrears are an important indicator of need to LDCs, LDCs have also indicated that there may be customers who are keeping up with their bills, but at the expense of paying for food or other basic needs. LDCs have asked for discretion to also offer energy efficiency measures to these customers.
- Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances.
- Other factors as agreed by the Trustees.

Hydro One is expected to use the principles developed by the Ministry (with input from LDCs) to establish the Trust Deed. It is critical that there be fair and appropriate eligibility criteria for LDCs to consistently apply across the province to ensure that support is provided to those customers in need and to prevent any potential gaming.

The Trustees must be given some flexibility to determine this criteria. Flexibility is also desirable as it is expected that the Trustees will have knowledge of the LDC sector, customer needs and/or low-income and conservation programs to further refine appropriate customer eligibility criteria. It is also expected that Trustees will engage with other LDCs and industry experts as needed to inform eligibility criteria.

APPENDIX D: MINISTRY'S RISK ASSESSMENT AND MITIGATION STRATEGY

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
It is proposed that the funding for the Fund be expensed in 2016-17, while the programs would be delivered in future fiscal years. The Auditor General may ask for the funding to be expensed in future fiscal years.	M	L	ENERGY is continuing to engage with Hydro One and the Ontario Provincial Controller (OPCD) early to develop the funding mechanism and Trust. ENERGY is working to flow the funds to the Trust in advance of March 31, 2017.
The Auditor General may question the rush nature of this program in addition to the need for a Trust Account and why the Ministry is unable to deliver the program itself.	H	M	Explain that the Fund is part of the government's rate mitigation strategy, and intended to address an immediate need (getting customers on a more sustainable path with bills). ENERGY lacks the capacity to deliver the program itself. ENERGY will develop issues management materials to address these concerns.
Flowing the funds into an independent trust account allows for limited accountability, oversight and transparency provisions.	M	H	ENERGY has engaged with the Ontario Provincial Controller to seek their guidance on how to incorporate accountability, oversight and transparency provisions in the TPA. ENERGY will develop a TPA in-line with OPCD guidelines on accounting considerations for using government funded Trust Accounts.
Oversubscription of funds	M	M	Need for additional funding in future years can be evaluated based on customer needs.
Underspending of allocated funds	L	M	TPA will include the option to extend the original funding amount into future years. The Trust will also have the ability to extend funding as needed. To increase uptake for customers in need, LDCs will undertake targeted outreach.
Some entities, including LDCs who are not selected as parties to the TPA, may feel left out of the funding program or perceive the funding as inadequate.	M	L	Undertake consultations with LDCs and other stakeholders to provide input on allocation methodology. Prepare a robust communication plan to emphasize the scope and purpose of the Fund