Home Assistance Program – IESO Delivery Implementation

Presentation to the Ministry of Energy

October 3, 2017

Confidential

Independent Electricity System Operator

Purpose

- To provide the IESO's recommended implementation strategy for delivery of the Home Assistance Program (HAP) to low-income customers

Overview

1. Home Assistance Program (HAP) delivery through the Conservation First Framework (CFF)
2. August 4, 2017 Direction and feedback from LDCs
3. The IESO's principles for delivering program for low-income customer segment
4. Green Ontario Fund and natural gas utility collaboration
5. Implementation options
6. Recommendation
7. Next steps

Home Assistance Program delivery through CFF

- The CFF was designed to encourage cost-effective program delivery and to provide LDCs with flexibility in programming options and budget allocations
- Most LDCs transitioned to CFF funding for the delivery of the Home Assistance Program in 2016
- **2016 Program Activity**
  - 2016 HAP saw a **69% decrease** in activity in 2016 (5,066 projects) vs. 2015 (16,526 projects)
  - 34 LDCs had **no activity** in 2016
- Service providers and organizations representing low-income customers have raised concerns with the inconsistency in program availability and general decrease in LDC support of HAP

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August 4, 2017 Direction

- The Minister of Energy issued a Direction to the IESO on August 4, 2017, indicating that the IESO will be responsible for the design and delivery of programming for low-income customers beginning January 1, 2018
  - Allocated LDC budgets are not impacted by the Direction and may be diverted to other programs
  - Savings achieved through IESO delivery are not attributed to LDC targets
  - "…the IESO may continue to allow a Distributor to deliver, funded through their allocated CDM budget, a CDM program(s) targeted to the low-income customer segment in its service area if the Distributor demonstrates, in the determination of the IESO, a commitment to service this sector." (subsection 3.9)

LDC feedback on August 4, 2017 Direction

- IESO had phone discussions with LDCs and groups representing more than 75% of all LDCs, and provided an update at the Residential Working Group meeting on September 13, 2017, to discuss the Direction for an IESO-delivered HAP
- LDCs raised the following concerns during these sessions:
  - Changes to the general direction of the framework
  - How criteria for exceptions will be established and whether this is an LDC decision
  - How existing vendor agreements and CDM Plans will be affected
  - Impact on call centers and staff time with customer inquiries
  - HAP savings relied upon to meet targets (indicated by smaller LDCs)
  - The interaction between HAP and the Affordability Fund
  - Natural gas utility collaboration
- Most LDCs expressed interest in co-branding opportunities and a funding mechanism to continue community engagement activities

London Hydro

- London Hydro (LH) has demonstrated a commitment to serving low-income customers
  - One of few LDCs to increase program activity since transition to CFF
  - Does not deliver program through third-party vendor and delivers in other service territories (Tillsonburg and Festival Hydro)
  - Relationship with community and low-income customers is priority for utility
- Challenges with providing exception
  - Delivery not in compliance with program rules
  - Has not delivered the full program offering (no weatherization measures)
  - LH CDM staff have publicly stated they will continue delivering the program without any formal notice of receiving an exception from the IESO, as required by the Direction
  - IESO's criteria for exception and requirements for management of an exception expected to be challenged by LH

IESO's principles for delivering program to low-income customer segment

- IESO's delivery of HAP will ensure the following for low-income customers province-wide:
  - Adequate funding
  - Equitable access
  - Consistent offering
  - Community engagement
  - Multi-fuel coordination

GreenON and gas utility collaboration

- The IESO plans to expand the HAP offering to include GHG-saving measures beginning January 2018
- A business case is in development to support an expanded HAP offering to include all fuel sources – changes will affect hot water heating and weatherization measures
  - Further program changes expected in 2018 with the inclusion of additional GHG measures
- Gas utility collaboration provides increased cost efficiencies
  - Decentralized delivery requires multiple LDC-gas utility negotiations for a consistent and coordinated province-wide offering

Implementation options

- **Option 1:** IESO to deliver HAP province-wide beginning January 1, 2018
  - Fund to be established for LDCs to continue community engagement activities with no impact on allocated CFF budgets (estimated at $1.5 million, based on total provincial HAP administration costs of approximately $2.5 million in 2016)
  - Explore opportunities for LDCs to receive savings by funding activities within their service territory by paying a Value Added Services rate (similar to Heating and Cooling program)
- **Option 2:** IESO to consider exceptions with LDCs, based on minimum performance standards
  - IESO will prescribe a standard for LDCs to meet with program delivery, along with reporting requirements as conditions for an exception
  - IESO to procure a service provider to deliver program where there are gaps in LDC delivery, if exceptions are provided

Option 1: IESO delivery province-wide

Pros:

- Ensures adequate funding, equitable access and a consistent offering across the province
- Achieves cost efficiencies for managing delivery agent through economies of scale
- Improves coordination with Affordability Fund, GreenON, and gas utilities' program offering
  - Provides fewest barriers for designing an integrated CFF-GreenON program
  - Single delivery agent contract to be amended when program offering is expanded
- Enables IESO to proceed with implementation without delays related to accommodating LDC exceptions
- Aligns with recommendation by third-party program evaluators
- Additional funding provided by IESO provides opportunities for LDCs to continue ongoing community engagement activities
- Allows IESO to develop and execute on a province-wide marketing strategy with consistent program availability across province
- IESO's delivery agent will be required to collaborate with LDCs, and provide opportunities for co-branding of customer-facing materials to strengthen LDC relationships with customers through enhanced program offering
  - Delivery agent will be required to coordinate with LDCs with respect to customer referrals with the LDC-delivered Affordability Fund offering

Option 1: IESO delivery province-wide (cont'd)

Cons:

- LDCs will express concern with their role in the framework perceived to be diminished
- Some LDCs expressed concern about reduced savings potential
- May result in less incentive for LDCs to continue community engagement activities
- May be perceived to impact LDC's delivery of the Affordability Fund program
- Existing LDC vendor agreements to be terminated or amended for Affordability Fund program delivery

Option 2: IESO to negotiate LDC exceptions

Pros:

- LDCs will perceive this to be a more collaborative approach
- Where exceptions are provided, LDC delivery agent contracts are not terminated
- Where exceptions are provided, LDCs can coordinate delivery of the Home Assistance Program and the Affordability Fund in their service territory

Option 2: IESO to negotiate LDC exceptions (cont'd)

Cons:

- If LDCs do not meet performance standards, the concerns expressed by organizations representing low-income customers will not be addressed
  - Need for ongoing management of exceptions to monitor underperformance
  - Though the IESO will retain ability to revoke an exception underperforming LDCs may not be identified until Q3/Q4 2018 due to data lag in reporting
- Difficult to establish and apply criteria for exceptions that are accepted and perceived by LDCs to be equitable
  - Methodology for establishing performance standards expected to be challenged as cost of delivery is more expensive where the program has already been delivered to "easy-to-reach" customers
  - Cost-effectiveness associated with future program changes are unknown
- LDCs will need to review program changes prior to making a decision
- Implementation timelines for program changes may be varied across province
- Challenges associated with LDC agreements for exceptions puts timeline for IESO's delivery of HAP at significant risk with possibility of program access gaps remaining in January 2018
  - If LDCs do not agree to exception criteria by the deadline, the IESO may be required to proceed with Option 1 but on a delayed timeline
- Establishing conditions for exceptions would require development and implementation of significant contracting and monitoring requirements by January 2018
- Collaboration with GreenON and gas utilities is less coordinated

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IESO Recommendation

Proceed with Option 1

- Enables the IESO to procure a vendor and be in market with the revised program province-wide as early as January 2018
- Achieves cost efficiencies through economies of scale
- Ensures a consistent program offering and equitable access province-wide
- Simplifies coordination with GreenON and gas utilities
- Provides options and flexibility to LDCs, through the IESO's procured service provider, to mitigate some of their major concerns
    - IESO's central delivery would be deployed with a focus on strengthening LDC-customer relationship
    - Incremental funding to be provided to support community engagement and outreach
    - Co-branding opportunities to be made available
    - Opportunities may be made available for LDCs to claim savings and have costs assigned for activities in their service territory (through a Value Added Services model)

Next steps

- First week of October: Reach a decision on delivery options

Option 1 timeline

- October 2017: IESO to issue a letter to all LDCs indicating HAP will be terminated
  - Will indicate options for LDCs to continue co-branding and community engagement activities
  - Will investigate opportunity for LDCs to capture savings if delivery costs are flowed through to LDC's CFF budgets
- October 2017: IESO to release RFP for vendor to deliver HAP province-wide
- October to December 2017: Ongoing LDC communications related to managing operational impacts for CDM Plans and vendor agreements
  - LDCs may choose to retain vendors to complete in-process projects and/or lead the Affordability Fund delivery, with the expectation that no new HAP projects will commence after the program's termination date
- December 2017 and January 2018: Details to be provided on process for accessing funding for community engagement activities
- January 2018: IESO delivery of HAP commences province-wide
  - HAP province-wide delivery commencement date to coincide with program termination date to ensure no gaps in market exist
- Ongoing in 2018: Additional program changes to be identified and stakeholdered along with province-wide marketing campaign

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Next steps (cont'd)

Option 2 timeline

- Mid-October 2017: IESO to commence discussions with LDCs on performance standards
- Late October 2017: IESO to provide updated program rules to LDCs for review
- November 30: IESO to finalize conditional agreements and monitoring requirements for LDC exceptions
- December 2017: IESO to release RFP for vendor to deliver HAP where there are gaps in LDC delivery as a result of determination of LDC exceptions
- Q2 2018: HAP expected to be delivered province-wide (IESO and LDC delivered with multiple service providers in market)
- Q3/Q4 2018 - ongoing: Monitor LDC-delivered HAP, follow-up with underperforming LDCs and revoke exceptions where necessary
- Ongoing through 2018: Additional program changes to be identified and stakeholdered along with province-wide marketing campaign