Affordability Fund – Cash Management Exemption Request

Purpose

The Ministry of Energy (ENERGY) is seeking an exemption from the requirements of the Cash Management Directive for its Transfer Payment (TP) program to establish the Affordability Fund.

Background

Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure. Since 2003, Ontario has invested over $35 billion in cleaner generation and an over $15 billion investment in transmission and local distribution systems.

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (i.e., new build nuclear), improving market efficiency (i.e., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement renegotiation, decreasing Feed-In Tariff prices, competitive Large Renewable Procurement, etc.).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve further cost savings, on March 2, 2017, the government announced the Fair Hydro Plan, which includes the establishment of an Affordability Fund to provide support for energy efficiency improvements to help customers reduce future electricity bills and avoid future disconnections.

With 60,000 Ontarians at risk of disconnection from their electricity service each year, there is an immediate need to help more customers. Energy efficiency improvements can help put these customers on a more sustainable path. By establishing the Fund now, electricity distributors will have the required upfront commitment to initiate planning and implementation activities.

The Fund, established through the tax base, will be administered by a Trust and be accessible to electricity distributors only. It will allow distributors to target electricity customers who do not qualify for low-income conservation programs and who are unable to undertake energy efficiency improvements without financial assistance, including those in frequent arrears or facing disconnection. Eligible customers will be identified by electricity distributors (i.e., entitlement based). Priority would be expected to be given to homes primarily heated by electricity. The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake.

It is expected that the program will assist eligible customers by providing energy efficiency measures ranging on average from $3,000 to $5,000 per customer at no or minimal costs. The measures funded through the Fund would be similar to, or build on those available through the existing low-income conservation program called the Home Assistance Program (HAP) (see appendix for details on HAP). Cold climate air source heat pumps, which can cost from $7,000 to $13,000, could also be an eligible measure under the Fund for homes that are electrically-heated. As a result, eligible customers will be able to undertake energy efficiency improvements that they otherwise could not afford, which can help them manage their electricity consumption and reduce bill costs.

ENERGY received Cabinet approval on March 1, 2017 for the creation of a new one-time government funded Affordability Fund in 2016/17 to provide relief to electricity customers who do not qualify for existing low income programs and cannot purchase energy efficiency measures without financial assistance.

On March 6 and 8, 2017, Treasury Board/Management Board of Cabinet (TB/MBC) and Cabinet respectively approved a Treasury Board Order, under the authority of the Financial Administration Act, in the amount of $100,000,000 in the 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. ENERGY was also directed to 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.

By the end of FY 2016-17, ENERGY will flow $100 million to Computershare Trust Company of Canada (Computershare) through a Transfer Payment Agreement (TPA). Computershare is a trusted partner in some of the largest public and private companies and organizations in Canada and across the globe and will act as the interim Trustee for the Affordability Fund Trust. Computershare will be replaced with a Board of Trustees with relevant expertise who will be responsible for distributing funds to electricity distributors across the province.

A Trust provides an effective solution to an otherwise challenging problem of distributing funding to electricity distributors. With approximately 70 electricity distributors in the province, having the province enter into agreements with each one is not feasible. The program will be managed consistently across the province by having a single entity manage the flow of funds to electricity distributors based on principles set by the province and that would be responsible for establishing consistent processes, administration, and criteria for funding applications.

A Trust structure can also leverage the expertise of the electricity distributor sector in areas such as conservation, education, call centre operations, etc. Electricity distributors have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. Electricity distributors are best positioned to identify and target their customers and work directly with the Trust to support the program's objectives.

Finally, a Trust structure establishes a non-controlled, independent entity to distribute funding to electricity distributors. It is expected that the Trust will include representation from several electricity distributors as well as social service agencies. It is expected that the composition of the Board of Trustees will be selected based on their experience in delivery and oversight of conservation and low income programs.

Reasons for Exemption:

The government and LDCs have identified an immediate need to help customers get on a more sustainable path with their electricity bills. The Fund will target customers who do not qualify for low-income conservation programs, who have difficulty paying their electricity bills and are unable to undertake energy efficiency improvements without financial assistance. Delays due to insufficient cash flow would prevent electricity distributors to provide immediate assistance to their customers.

The March 2, 2017 Fair Hydro Plan announcement communicated the Province's intent that customers will start to see the Plan's benefits beginning summer 2017. Accordingly, it will be important for the Affordability Fund to be established as soon as possible so electricity distributors can apply for funding and start providing assistance to their customers who are in need.

The Trust will be an independent entity (i.e. non-controlled). The Board of Trustees, who will replace the interim trustee (Computershare), will distribute funding to electricity distributors at their discretion based on an application process and targeted eligibility criteria. ENERGY will establish principles in the TPA and Declaration of Trust regarding the Trust's compliance with the Transfer Payment and Accountability Directive (TPAD) and the value for money principle.

It is expected that the program will assist eligible customers by providing energy efficiency measures similar to, or building on those available through HAP. However, the Board of Trustees, who will later be appointed based on relevant expertise, will have discretion to establish eligible measure criteria and to distribute funding to electricity distributors to provide these energy efficiency measures to their customers who are in need. In order to ensure the Trust is able to carry out projects efficiently and effectively, providing it with the full funding allows for flexibility and control to implement the Affordability Fund without risking delays due to insufficient cash flow. Providing full funding therefore remains in line with the independent nature of the Trust.

As such, ENERGY is seeking an exemption from the requirements of the Cash Management Directive to allow the Trust to receive the full funding approved by TB/MBC by the end of Q4 2016-17, which will enable timely and effective delivery of the Affordability Fund objectives and goals without any financial hurdles.

Project Monitoring:

The Trust will be required to provide periodic financial reporting (as per TPAD), on a quarterly and annual basis, in order to confirm spending and demonstrate the impact of the Province's funding. This will enable ENERGY to maintain appropriate oversight from a cash flow perspective and help ensure project progress aligns with TPA requirements.

Quarterly Report requirements will include:

- Amounts disbursed by the Trust in the previous quarter. It is expected that this information will be provided at the electricity distributor level.
- Total Affordability Fund interest accrued to date
- Key activities and achievements from the quarter being reported, including number of participant households per electricity distributor, average participant incentive cost per electricity distributor, and uptake of energy efficiency measures per electricity distributor
- Any challenges or modifications required to the application, funding, or eligibility processes/rules
- Key activities planned for the upcoming quarter

Annual report requirements will include:

- A description of electricity distributor application process and the criteria used by the Trust to manage funds.
- Identify and describe any challenges with achieving goals and proposed solutions, if applicable.
- Lesson learned.
- Electricity distributor and customer feedback
- Amounts disbursed by the Trust in the previous year. It is expected that this information will be provided at the electricity distributor level.
- Key activities and achievements from the quarter being reported, including number of participant households per electricity distributor, average participant incentive cost per electricity distributor, and uptake of energy efficiency measures per electricity distributor
- Total Affordability Fund interest accrued to date
- An audited financial statement for the previous year

Mitigation Controls

ENERGY is preparing the TPA and Trust Deed with input from internal and external legal counsel with expertise in establishing trust structures, the Ontario Provincial Controller and Hydro One, which is the single largest electricity utility in Ontario. The TPA will be based on the OPS template (developed by the Ministry of the Attorney General). The TPA will incorporate accountability, oversight and claw-back provisions in line with TPAD and will also include the following accountability provisions:

- Description of the intended use of the funds including the specific purpose for which the funds will be used and the nature of eligible expenditures.
- Report-back requirements, including periodic reporting on the use of the transfer funds; and
- Right to independent verification/audit.

It is expected that administrative expenses of the Trust, will be in accordance with the principles outlined in the Province's TPAD. To protect public interest, it is expected that electricity distributors will be required to utilize the funds in a not-for-profit manner.

The Trust will be permitted to retain interest earned (i.e. interest will be put back to the Trust for the benefit of beneficiaries) to use on eligible expenses and will report on the use of interest earned as part of the reporting on funding use.

In the event of a default, or if the Trust breaches any representation, warranty, covenant or other term of the TPA the Province will have the ability to take corrective action and recover the funding at a future date if the Trust does not adequately remedy the event or default.

Appendix

Conservation First Framework

The 2015-2020 Conservation First Framework was established through a directive to the Ontario Energy Board (“OEB”) (dated March 26, 2014) and a Direction to the Independent Electricity System Operator (“IESO”) (dated March 31, 2014). The Directive to the OEB requires the Board to establish, as a condition of license, that electricity distributors make conservation programs available to all customer segments within their service area, including low-income.

Energy conservation programs under the Conservation First Framework typically provide incentives that cover only a portion of the incremental cost of the more energy efficient measure, requiring an upfront investment by customers. The incentive amount and the measures in the program are selected on the basis of electricity savings and cost-effectiveness of both the program and the individual measures. Low-income customers do not have money available to make upfront investments to improve the energy efficiency of their homes. Low-income conservation programs, like the Home Assistance Program (“HAP”), provide energy assessments and installation of energy-saving measures at no cost to eligible participants.

Home Assistance Program

Ontario’s electricity utilities, in collaboration with the IESO, offer HAP to improve the energy efficiency in the homes of low-income Ontarians. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes.

Savings are achieved through the installation of LED light bulbs, ENERGY STAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. The program includes a detailed in-home energy assessment, professional installation of energy-saving measures and advice on steps that can be taken to save even more energy. Customers may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner. Electrically heated homes may also be eligible for a programmable thermostat, weather-stripping around doors and windows and additional attic/basement insulation.

HAP requires participants to meet a mandated definition of low-income consumers. Income-eligibility criteria for HAP is based on after-tax income for all household members aged 18 and older. The eligibility criteria is derived from Statistics Canada measures.

Table 1: Home Assistance Program Income Eligibility*

Number of people living in home	After-tax annual household income
1 person	$21,773
2 people	$30,792
3 people	$37,712
4 people	$43,546
5 people	$48,686
6 people	$53,333
7 people	$57,606
8 people	$61,583
9 people	$65,319
10 people	$68,852

***Alternatively, an individual will be eligible if they have received a social program benefit from a list of Ontario programs, for example, National Child Benefit Supplement (NCBS), Allowance for Seniors, Ontario Works. There is inter-program coordination in that if an individual is eligible for LEAP EFA or OESP they are also eligible for the Home Assistance Program.**

Energy conservation programs are not social programs. They are designed in order to ensure the most cost-effective energy-saving measures (e.g., weatherization, appliances) are incented. However, because HAP covers the full cost of the energy saving service and measure, the program is expensive and is given an exemption from having to pass the cost-effectiveness tests that are otherwise required for conservation programs. For this reason, verifiable eligibility criteria are part of the HAP program design.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP but have difficulty paying their bills, such as customers whose homes are heated electrically and who are not able to make energy efficiency upgrades without financial assistance. The OEB has reported that at the end of 2015, there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance. (“Arrears” means an account that is 30 or more days past the 16-day minimum payment period). The OEB has also reported that in 2015 about 60,000 customers had their electricity service disconnected.