Affordability Fund – Cash Management Exemption Request

Question from OFA: Why is ENERGY requesting $100 million in FY 2016/17 for the Affordability Fund?

Context:

- 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. The government has committed to provide further relief on electricity prices to consumers in the near term.

- On March 2, 2017, the government announced the Fair Hydro Plan, which includes the establishment of an Affordability Fund to provide energy efficiency measures to customers that are struggling with their electricity bills (e.g., in bill arrears or facing service disconnection). The announcement communicated the Province's intent that, pending passage of legislation, customers would start to see the Plan's benefits beginning summer 2017. (Note: The Affordability Fund does not require legislative or regulatory amendment.)

- The existing low-income conservation program, the Home Assistance Program (HAP), does not address the needs of those customers that do not qualify as "low-income" but are not able to invest in energy efficiency measures without financial assistance.

- As reported by Local Distribution Companies (LDCs) to the Ontario Energy Board (OEB), at the end of 2015, there were over 560,000 residential electricity accounts in arrears ("Arrears" means an account that is 30 or more days past the 16-day minimum payment period); of these about 19,900 (~3.6%) accounts were eligible to participate in low-income conservation and support programs (low-income customers identified through participation in Low-Income Energy Assistance Program "LEAP").

- In addition, LDCs have also reported to the OEB that in 2015 about 60,000 customers had their electricity service disconnected.

- There is an immediate need to help customers in arrears and facing disconnection. Energy efficiency improvements can help put customers on a more sustainable path with their electricity bills.

Program Funding Rationale:

- 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 to the beneficiaries. The measures funded through the Fund and administered by the Trust are expected to be similar to, or build on those available through HAP. Cold climate air source heat pumps (ASHPs), which can cost from $7,000 to $13,000, could also be an eligible measure under the Fund for homes that are electrically-heated (ASHPs can achieve significant electricity savings).

- If similar measures are available through the Fund as are available through HAP, and if ASHPs are included as an eligible measure, the estimated reach of the Fund could be 1.4% to 12% of non-HAP eligible customers in arrears, based on an investment of $100M and $200M respectively:

Measure Cost (Low and High Ranges)	No. of Program Participants			
	Investment of $100M	**% of Non-HAP Eligible Customers in Arrears***	**Investment of $200M**	**% of Non-HAP Eligible Customers in Arrears***
$3,000	30,000	5.5%	65,000	12%
$13,000	7,700	1.4%	15,000	2.8%

**As reported by LDCs to the OEB, at the end of 2015 there were 540,100 customers who are in arrears and not eligible for HAP.*

Immediate Program Need:

- ENERGY had heard a definite interest by Electricity Distributors to take advantage of the Affordability Fund as soon as possible, including from the Electricity Distributors Association. As such, there is reason to believe that Electricity Distributors will be motivated to work with the Trust on a timely basis to ensure that eligible beneficiaries can realize the benefits of the funding as soon as possible.

- A timely transfer of the funds to the Trust will convey to Electricity Distributors and beneficiaries that the government is committed to ensuring that the funds are available to provide assistance as soon as possible. Establishing the Fund now will provide electricity distributors with the required upfront commitment to initiate planning and implementation activities (e.g., contracting program delivery agents, targeted marketing).

- By making full funding available to the Trust by March 31st, messaging to Electricity Distributors in terms of availability of funding and substantive support available to customers is expected to attract greater participation from the Electricity Distributor community.

- Further, a Board of Trustees with relevant expertise will be responsible for distributing funds to Electricity Distributors across the province. The Trust Declaration and Transfer Payment Agreement have been drafted to reflect the Trust as an independent entity (i.e., non-controlled).

- The use of the Trust and the proposed governance framework are expected to ensure that the program is managed independent of the government and consistently across the province by having a single entity manage the flow of funds to electricity distributors based on consistent processes, administration, and criteria for funding applications.

- Providing full funding is consistent with the government's commitment and delegation of control to the Trust and is consistent with the intended independent nature of the Trust.

- ENERGY has developed Principles, which will be reflected in both the TPA and Declaration of Trust to help guide the Trust's activities as related to the purpose of the Fund.

- The Board of Trustees are expected to have regard to these Principles to distribute funding to Electricity Distributors at their discretion based on an application process and targeted eligibility criteria.

- Principles strike a balance between setting government objectives for the Fund and providing flexibility so that the Trust can target customers who are in need. ENERGY has worked with OPCD, external counsel and Hydro One to refine these principles, which include:

  – The Trustees are expected to consult with distributors, IESO, OEB and low-income program experts to refine participant and measure eligibility rules, and develop an application process for Distributors.

  – The final measure eligibility list will be determined by the Trustees. Distributors are expected to have the flexibility to select measures based on their customer needs (e.g. breakdown of primary heating sources within their service areas).

  – It is not intended that the Board of Trustees will receive remuneration for their services. However, the Advisory Committee (to be composed of four representatives of the electricity distribution sector, as well as one from the IESO, and who will appoint the Board of Trustees) will have discretion to recommend compensation if it proves difficult to secure willing Trustees. Trustees will be eligible to seek reimbursement for any out-of-pocket expenses reasonably incurred.

  – Distributors are expected to manage funding from the Fund in a not for profit manner, but will be able to seek reimbursement for administrative expenses. Unspent funds to be returned to Trust.

  – A separate Schedule to the TPA establishes the expectation that administrative expenses of the Fund, including any administrative expenses of the Recipient, electricity distributors and other administrative service agents, will be no greater than 10 percent of the total Project budget.

- In order to ensure the Trust is able to carry out projects efficiently and effectively, flowing the full amount of approved funding ($100M) will support the objectives of the Fund and will also allow flexibility to implement the Affordability Fund without risking delays in meeting Electricity Distributor plans due to insufficient cash flow.

- 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 and to allow the government to deliver upon its announced commitments.