Decision Note
Affordability Fund Electricity Savings and LDC CDM Targets

ISSUE:

- Should electricity reductions resulting from the Affordability Fund ("the Fund"), part of the government's Fair Hydro Plan, count towards local distribution company (LDC) Conservation and Demand Management (CDM) targets?
- What are the associated implementation requirements and proposed timelines for potential approaches?

KEY CONSIDERATIONS:

- The Fund was conceived as part of the rate mitigation package with the intent to help customers who do not qualify for low-income conservation programs to install energy efficiency measures, to help avoid future bill arrears and service disconnections.
- The Fund is financially supported through the tax base rather than the Global Adjustment mechanism. While the Fund is intended to help put customers in need on a more sustainable path by helping to improve the energy efficiency of their homes, the Fund is also considered to be a rate mitigation (social) initiative.
- The Fund was proposed by Hydro One as an additional tool for LDCs to reduce the number of accounts in arrears and customer disconnections. It is anticipated that LDCs should, without incentives, embrace the motivation to deliver the Fund to mitigate negative financial impacts to their operating position and use all resources available to provide customer satisfaction.

OPTIONS:

OPTION A: DO NOT ALLOW SAVINGS FROM AFFORDABILITY FUND TO COUNT TOWARDS CDM TARGETS (RECOMMENDED)

The Affordability Fund is primarily a social/customer service program and for this reason shall not be used to count towards LDC CDM targets.

Considerations:

- Provides a clear distinction between the Affordability Fund and CDM programs, i.e. the Affordability Fund is targeted for struggling customers that do not qualify for low-income programs – which are already offered through CDM (Home Assistance Program)
- It is anticipated that the LDC costs associated with supporting delivery of the Fund, including administrative costs, will be covered by the Fund.

- If savings from Affordability Fund measures are to be counted towards CDM targets, the savings would be subject to Evaluation, Measurement and Verification (EM&V). This additional step and associated cost was not contemplated since throughout development of the Fund concept it was considered to be more of a social program (paid for through tax-base) than a CDM program (paid through rates).

- If Fund savings count towards targets, LDCs may promote the program to customers that may not be in as great a need to realize increased savings.

- LDC CDM targets were informed by the OPA's 2014 Achievable Potential Study (APS) and are supported by the results of IESO's updated 2016 APS. The 2016 study considered cost-effective savings potential based on LDC budgets, and confirmed that the overall CDM target is achievable, while some LDCs may require target adjustments. IESO will consider target adjustments through the CFF Mid-Term Review, currently underway and to be completed by July 1, 2018.

- LDCs are eligible to receive performance incentive payments for reaching their mid-term and final CDM targets (see 'Background'). Providing taxpayer funding to support the achievement of CDM targets may be considered a cross-subsidization that assists the LDCs in achieving their performance incentives.

Implementation:

- If ENERGY adopts the position that any energy savings associated with the Affordability Fund should not be applied to LDC targets, there are no legal steps required. The March 31, 2014 Minister's direction to the IESO excludes activities promoted through a different program or initiative undertaken by the Government of Ontario from the definition of CDM.

- ENERGY would develop Q&As explaining why Fund savings will not count towards LDC CDM targets in the event that LDCs raise questions

OPTION B: SHARED SAVINGS APPROACH BASED ON LDC CDM CONTRIBUTION (PREFERRED APPROACH IF SHARED SAVINGS MODEL IS PURSUED)

This approach would allow LDCs to take partial credit for electricity savings resulting from the Affordability Fund, proportional to the level of costs to that may be covered by their CDM budget.

Considerations:

- In this option, an LDC leverages their existing CDM resources (call centre staff, delivery channels, etc) to help deliver Affordability Fund measures. In doing so, the proportion of CDM resource costs required to support the Affordability Fund would be counted towards CDM savings, for example:
    - An LDC call-centre rep spends 80% of their time answering calls regarding CDM programs and 20% of their time answering calls on the Affordability Fund.

    - In this case, 20% of the savings achieved from Affordability Fund measures would be counted towards the LDC's CDM target.
    - The savings claimed by the LDC would be subject to EM&V.
- This option would address, in part, potential LDC concerns about the Fund taking away from their CDM resources and reducing the achievable conservation potential for their service territory.
- The Affordability Fund already accounts for costs related to the administration of the Fund.
    - Of the $100M budgeted for the Affordability Fund, 10% has been identified to support administration costs.
    - The Fund recognizes that LDCs will incur costs to offer the program and it is expected that LDCs will include those costs as part of their applications to the Trust for program funding.
- Based on the experience of administrative costs related to delivering HAP, it is possible that some LDCs may incur administrative costs that exceed the administrative budget of 10% of Fund costs
    - Leveraging CDM resources to deliver the Fund could help the Fund reach more customers and reduce the administrative costs of the Affordability Fund.
- This approach provides a modest reward for LDCs to offer the Affordability Fund program, balancing the fact that the Fund is a social and customer service program which should be offered regardless of financial incentive, while recognizing LDC CDM resources used to support Fund delivery.
- It would be valid and consistent with existing CFF rules to count savings that result from CDM investment towards LDC CDM targets, in the context of the Affordability Fund.
- The IESO notes that, similar to the HAP program, LDC CDM departments may not prioritize investing resources in the Affordability Fund, instead choosing to concentrate on high-yielding programs such as Retrofit.
    - The amounts of LDC contribution to the Fund may be small relative to the amount spent on incentives.
- This option is not expected to have an impact on LDCs ability to meet their CDM targets.
    - Most LDCs are already expected to meet their CDM targets (see "Background" section for details.

Implementation Requirements & Proposed Timeline:

- This option would **not** require an amending OEB directive or IESO Direction to allow savings to count towards LDC CDM targets.

- The Ministry could issue a letter to the IESO clarifying that if LDCs use any CDM resources to support delivery of the Affordability Fund to their customers, the savings associated with those resources could count towards their CFF targets.
- It is recommended that the letter to the IESO not be issued until the Affordability Fund Trust begins its engagement with distributors and other stakeholders on proposed program design. Otherwise it is likely that questions about the Fund will be raised that cannot be addressed in the absence of proposed details.

Steps	Timeline
ENERGY Letter of Clarification to IESO	**August 2017**
IESO issues LDC eBlast and communicates policy to the Affordability Fund Trust	**August 2017**
LDCs who wished to use CDM resources to supplement delivery of the Fund could update and resubmit their plans to the IESO	**Fall 2017**

OPTION C: SHARED SAVINGS APPROACH – DEFINED RATIO:

Under this option a defined portion of the savings realized through the Affordability Fund would count towards LDC CDM targets.

The exact ratio could be determined based on further consultation and engagement with IESO and LDCs.

Considerations:

- Under this option, savings achieved through Affordability Fund measures would be counted towards CDM targets based on an agreed upon ratio.
    - The ratio would be determined based on consultations with IESO and LDCs, however, as an example, they could agree to count 50% of all savings achieved through Affordability Fund measures to be counted towards CDM targets regardless of any other factors (e.g. cost of measure, LDC staff costs)
- This option would set a precedent for allowing electricity savings that result from Government of Ontario initiatives, including those that have LDC involvement (e.g. Industrial Conservation Initiative, TOU pricing) to count towards LDC CDM targets.
    - The IESO is not supportive of allocating savings from a program that is not funded and/or operated by the CFF because this has not been done historically, and would not align with current practice and definition in the March 2014 OEB Directive and IESO direction, and the Energy Conservation Agreement (ECA) between the IESO and LDCs.

    - The IESO has indicated that they can consider the impact of the Fund to LDC achievable potential after the mid-term review.

- This option may reward LDCs who are underserving their low-income customers who are most in need.
    - LDCs are overall on track to achieve their CDM targets, and Fund savings may be eligible to receive performance incentives at the end of the CFF.

- It would be difficult to develop and maintain a defensible methodology for allocating a portion of the savings to CFF targets.
    - LDC contribution to the Fund will vary by LDC.

- From an LDC perspective, LDCs will allocate the same resources towards serving Fund-eligible customers as they currently allocate toward HAP customers.
    - A shared approach may encourage LDC CDM departments to prioritize the Fund, if LDCs see the Fund as competing with their other activities.
    - However, other LDC departments (customer service) may see the Fund as an important social and customer service program which should be offered regardless of financial incentive.

- It could also address LDC potential concerns about eroding their achievable conservation potential.
    - However, the Affordability Fund program is expected to cover 100% of the costs of energy efficiency measures, and as a result to have minimal duplication with existing/planned programs targeting the same customer segment.

- Similar to Option B, LDC savings associated with Affordabilty Fund measures would be subject to EM&V.

Implementation Requirements & Proposed Timeline:

- ENERGY would need to seek a Cabinet-approved amendment to the Minister's March 2014 Directive to the OEB, and amend the IESO direction (also with Cabinet approval, if after LTEP).

Note, IESO has not contributed to the development of this timeline – timelines may change based on IESO advice:

Steps	Timeline
ENERGY to engage with IESO and LDCs to consider a shared savings model. ENERGY recommends first discussing with IESO the model, as well as the treatment of savings	**Early to mid-July 2017**

towards LDC performance incentives	
Draft amending OEB Directive and IESO direction	**Early to mid-July, 2017**
Seek approval of OEB directive in conjunction with LTEP submission and implementation directives *(Note: Given proposed engagement with IESO and LDCs, an August Cabinet date may be more realistic.)*	**July 26, 2017**
Issue amending IESO direction and OEB Directive	**August 2017**
IESO develops the method for determining LDC CDM Target attribution from Affordability Fund measures. • IESO consults with LDCs and other stakeholders on this method • IESO develops Evaluation, Measurement & Verification (EM&V) protocols	**Early Fall 2017**
IESO sends LDC eBlast, and communicates policy to the Affordability Fund Trust	**Late Fall 2017**
LDCs to update their CDM plans to include the eligible portion of Fund savings, and resubmit their plans to the IESO	**Early 2018**

BACKGROUND:

- The Affordability Fund is intended to provide direct installation of energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without financial assistance.

- The idea for an Affordability Fund originated with Hydro One, who identified a need to help struggling customers who could not qualify for low-income programs. Expected benefits of the Fund to LDCs and their customers include:

    - Reduced bill arrears and distributor collection efforts

    - Avoided disconnection and reconnection costs

    - Tool to manage customer service calls and complaints; reduced future customer complaints

- LDCs are expected to undertake the following activities in delivering the Fund:

    - *Customer service support:* responding to phone calls and written requests.

  - *Targeted marketing:* design, production, and distribution of LDC marketing materials; potential outreach with social service intake agencies.
  - *Managing the program:* reviewing applications, overseeing contract delivery agents, reporting results to the Fund.

- Marketing should be highly targeted to reach customers in need, and will require careful judgment by LDCs to identify eligible customers (these could be customers who are in arrears, on payment plans, facing disconnection, or in frequent contact with an LDC's customer service with demonstrated difficulty paying bills).
  - LDC customer service staff may be best positioned to drive this effort, with Conservation and Demand Management (CDM) staff providing program delivery support, and potentially contracting HAP delivery agents, once customers are identified.
  - LDCs are expected to leverage CDM resources, including HAP delivery agents, in delivering the Fund.

- It is possible that certain LDCs may incur administrative costs that exceed the administrative budget of 10% of Fund costs, expected of the Fund and of LDCs, based on their level of program effort, and considering the higher administrative costs involved in HAP delivery.

- As per IESO 2016 preliminary verified results, LDCs are currently exceeding their forecasted savings for 2020.
  - Two-thirds of LDCs exceeded their 2016 forecasted CDM Plan savings.
  - The IESO currently forecasts that LDCs will exceed the 7 TWh target, achieving 7.7 TWh (111%).

Affordability Fund – Expected Timelines

- **Summer 2017:** Trustees consult on program application and eligibility criteria.
- **Late Summer 2017:** LDCs expected to begin applying to Trust.