**Briefing Note**
**Affordability Fund/Home Assistance Program Eligibility**

**ISSUE:**

The IESO intends to change the income eligibility requirements for the low-income Home Assistance Program (HAP) from Statistics Canada's Low-Income Measure (LIM) to Statistics Canada's Low-Income Cut-Off (LICO) measure, plus 35% (LICO+35%). This would have the effect of raising the upper threshold of income eligibility for HAP.

<u>Affordability Fund Trust (AFT) position:</u> The AFT is concerned about the IESO's proposed changes to HAP eligibility for two reasons:

1) this change would reduce the eligible population for the AFT and impact the Trust's success in supporting customers who are in need (the AFT estimates that the HAP eligibility change would result in a reduced eligible population of 605,000 households – draft as of December 14, 2017, and as of that date not yet shared with IESO); and
2) the optics of AFT potentially helping higher income households and not the "near poor" (since the "near poor" would be captured by HAP)

- The AFT has asked the IESO to explore the following for HAP eligibility:
    1. Stop pre-qualification into HAP for those eligible for LEAP, OESP and 8 other programs (e.g. Ontario Disability Support Program, Ontario Works, Allowance for Seniors).
    2. Eligibility based on the Statistics Canada's Low Income Measure (LIM), or the Low Income Cut-Off (LICO), *without* the 35% top up.
    3. Continue to use the current HAP eligibility criteria (LIM) for one more year to the end of 2018.

<u>IESO position:</u> The IESO's position is that the AFT's recommended changes would significantly decrease the number of eligible households for HAP and would be expected to cause market confusion particularly for OESP recipients, and this would impact the alignment of HAP with GreenON programs.

<u>Ministry's role</u>:

*HAP:*

A guiding principle of the 2015-2020 CFF is that CDM programs for low-income residential customers will be improved.

- On August 4th, 2017, the Minister of Energy issued an amending direction to the IESO to further improve the availability of conservation programs that help low-income customers, and to centrally design, fund and deliver a Province-Wide CDM Program targeted to the low-income sector (the Save on Energy Home Assistance Program) across all LDC service territories, beginning January 2018.

- The 2017 LTEP further highlighted the government's commitment to enhance and improve the availability of conservation programs helping low income customers.

*Affordability Fund:*

- From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.

- In January 2017, Hydro One submitted to ENERGY a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

- The Affordability Fund was announced on March 2, 2017 as part of Ontario's Fair Hydro Plan. It was announced that the Affordability Fund will provide LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.

- The 2017 LTEP reiterated that the Affordability Fund would help those not eligible for low income conservation programs, and who need support to improve the energy efficiency of their homes.

**ENERGY STAFF POSITION & CONSIDERATIONS**

Based on the information available today, staff recommend that:

- The IESO proceed as planned with the proposed changes to HAP eligibility, with a commitment to work with the AFT to evaluate uptake levels of both programs mid-2018 and make adjustments for 2019 as needed.

- The AFT further consider ways to target those in need (i.e. above the HAP eligibility threshold), such as adjusting the Energy Affordability Burden (EAB) calculation and/or establishing an upper threshold for income eligibility.

Alternatively, the IESO could be asked to continue to use the current income eligibility (using LIM) for one more year, with a joint commitment to evaluate AFT and HAP uptake to inform whether to keep or change the eligibility in 2019. This would however mean that:

- A subset of low income households who would have otherwise benefitted from a multi-fuels, whole home approach, funded through GreenON, will not.
- The optics would be poor from the perspective of gas-electric collaboration, which the ministry has been encouraging since 2011. Discussions between the IESO and the gas utilities are underway, and asking IESO to revert to LIM would challenge or impede collaboration on low income programming.
- Changes to income eligibility for HAP could delay the launch of the enhanced HAP program, since the current program design and RFB contemplate the proposed move to LICO +35%.

Key considerations:

1. ENERGY is of the view that there are enough struggling households for both programs to be successful and hit their targets. Those above the LICO cut-off still include a vulnerable population base.
    a. The target uptake for the Fund is 50,000 households in total (based on funding of $100 million). According to IESO estimates, 1.1 million households are eligible for HAP. There are 4.3 million remaining households that are technically eligible for the Fund. The question of how many households are in practice eligible is subject to the Trust's Energy Affordability Burden (EAB) calculation. The Trust also could consider setting an upper income threshold for Fund eligibility.
2. Currently the pre-qualification for other programs to HAP streamlines administration and assists with HAP uptake. Removal of this prequalification would require additional analysis to understand the impact on HAP operation and customer experience.
3. In setting the new HAP eligibility levels, the IESO is seeking to be consistent with the gas companies' approach and improve the program.
4. The IESO is working on an aggressive timeline to get the centrally-delivered and enhanced HAP into the market by January 2018. The RFP is in market and assumes the proposed changes to HAP eligibility.
5. The Trust has asked that HAP use a "standard definition" of low-income, by using the strict LICO or LIM test. However, while Statistics Canada establishes measures to determine the level of low-income, they have endorsed no official measure of poverty.

a. LICO + 35% was informed by OEB working groups in 2010, with input from intervenors representing vulnerable customers, MCSS and other government areas, as well as later ongoing consultations of the OPA and its Low Income Working Group with relevant stakeholders including the Social Housing Services Corporation.

b. Those above the LIM and LICO cut-off still include vulnerable households.

6. Documentation and the Ministry's communications related to the AFT do not refer to the beneficiaries as low income, in poverty or the near poor.
   - As outlined in the Principles Annex to the Transfer Payment Agreement, the Ministry's intention is that the Fund would meet the needs of all Ontarians who have "demonstrated a need for financial assistance on the basis that its periodic electricity bills represent a financial burden, relative to its available financial resources." (TPA, Annex A: Principles).
   - The Declaration of Trust sets out that beneficiaries of the funding allocated to the AFT cannot be those eligible for the HAP.
     - "HAP Eligible Person" means an "Eligible Person" as defined in Section 3.1 of the document entitled "Conservation First Framework LDC Took Kit" published by the Independent Electricity System Operator and designated as Final v3.0 – March 11, 2016, as amended in accordance with the Energy Conservation Agreement between the Independent Electricity System Operator and Electricity Distributors.

**QUESTIONS**

1. **For IESO:**
   **a.** If keeping HAP eligibility at LIM, would this delay the implementation of the centrally-delivered HAP in 2018? For example, would it require the RFP to be reposted, or could the change be made at the negotiation state, or once the vendor is secured?

2. **For the AFT:**
   a. The Trust's Energy Affordability Burden (EAB) calculation considers post-tax net household income. How does the AFT qualification/intake process take into account the size of the household? For example, a household of 1 member earning $80,000 versus, five-member household earning the same.
   b. Has the AFT considered adjusting the calculation of energy affordability burden or establishing an upper household income threshold to help better target customers in need?
   c. In the scenario where HAP makes the change to LICO+35%, how long would it take until sufficient Affordability Fund uptake data is available to inform the need for a possible program change?

APPENDICES:

- Statistics Canada Low Income Definitions

Date prepared: December 15, 2017

## APPENDIX – Statistics Canada Low Income Definitions

Statistics Canada produces two sets of low income cut-offs and their corresponding rates - those based on total income (i.e., income including government transfers, before the deduction of income taxes) and those based on after-tax income. Derivation of before-tax versus after-tax low income cut-offs are each done independently. There is no simple relationship, such as the average amount of taxes payable, to distinguish the two types of cut-offs.

Statistics Canada introduced its Low Income Measure (LIM) in 1991 as a compliment to its Low Income Cut-Offs (LICOs).

Although both sets of low income cut-offs continue to be available, Statistics Canada prefers the use of the after-tax LICOs. The before-tax rates only partly reflect the entire redistributive impact of Canada's tax/transfer system. It is therefore logical that the low income rate is higher on a before-tax basis than on an after-tax basis.

Source: https://www.statcan.gc.ca/pub/75f0002m/2012002/lico-sfr-eng.htm

In Canada, the federal government has endorsed no official measurement of poverty. Debate over the poverty line has been heated because poverty analysts, policy-makers and not-for-profit organizations disagree on what approaches and measures should be used to determine who is poor in Canada.

Although Statistics Canada has consistently stressed that LICOs are not poverty measures and that the federal government does not accept them as such, anti-poverty advocates rely mostly on LICOs to establish poverty lines in Canada.

Source: https://lop.parl.ca/content/lop/ResearchPublications/prb0865-e.htm#a3