

# Regulated Price Plan and Low-Income Consumers



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*FRC Canada*



# Regulated Price Plan and Low-Income Consumers: Low-Income Energy Network response to Ontario Energy Board's Regulated Price Plan proposal



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# 1 Introduction

## 1.1 Low-Income Energy Network

The Low-Income Energy Network's (LIEN) mission is to ensure universal access to adequate energy as a basic necessity, while minimizing the impacts on health and on the local and global environment of meeting the essential energy and conservation needs of all Ontarians. LIEN promotes programs and policies which tackle the problems of energy poverty and homelessness, reduce Ontario's contribution to smog and climate change, and promote a healthy economy through renewable and energy efficient technologies.

LIEN has 32 members from a broad range of organizations from across Ontario including: energy, public health, legal, tenant/housing, education and social and community organizations. LIEN is directed by an interim steering committee of the following LIEN members: the Advocacy Centre for Tenants Ontario (ACTO), Canadian Environmental Law Association (CELA), Income Security Advocacy Centre (ISAC), Share the Warmth (STW), Toronto Disaster Relief Committee and Toronto Environmental Alliance (TEA).

LIEN was formed to raise public awareness of implications for low-income families from the April 2004 electricity price rise in Ontario and to suggest solutions to aid low-income consumers. In addition to this initial work, LIEN members have also led a number of projects addressing low-income energy issues including:

- providing a written submission to the OEB consultation process on demand-side management and demand response.
- developing recommendations on actions the government could take to help low-income households immediately cope with the rise in electricity prices. This was completed in response to a request by the Minister of Energy.
- developing an energy efficiency program for local distribution companies that will address the particular needs of low-income consumers for the 2005 heating season. This work was supported by the Ministry of Energy and the Toronto Atmospheric Fund.

As part of LIEN's ongoing involvement in the Regulated Price Plan (RPP), LIEN made an oral presentation on September 10, 2004 at the initial OEB

RPP consultation<sup>1</sup> and participated in the stakeholder workshop on December 14, 2004<sup>2</sup>.

## 1.2 Integrated approach

To ensure universal access to adequate energy as a basic necessity LIEN supports a comprehensive and integrated approach to making energy more affordable for low-income consumers. Bill assistance, such as through the commodity price of electricity, is just one aspect of this comprehensive and integrated approach. Other pieces which are essential to providing affordable, adequate and universal supply to low-income consumers include: energy efficiency and conservation programs, consumer protection and education, and emergency energy assistance<sup>3</sup>. Any adjustments to the commodity price of electricity should be considered within this broader context. Pricing is an enabling tool that should help to promote energy efficiency and conservation programs and to spur consumer education. While LIEN wants to focus on an approach that over time will reduce overall consumption and costs for low-income consumers, direct energy assistance should be available for low-income households unable to absorb the higher cost of power or those in emergency circumstances.

## 1.3 Low-income consumer energy burden

According to the 2001 census by Statistics Canada, 14.4% of Ontario residents (or 1,611,505 persons) were living at or below the pre-tax, post transfer low income cutoffs – a widely accepted measure of poverty<sup>4</sup>. The

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<sup>1</sup> Mary Todorow of ACTO, and Judy Simon, acting on behalf of CELA, made the presentation.

<sup>2</sup> Malcolm Jackson and Judy Simon attended on behalf of LIEN.

<sup>3</sup> LIEN has taken an active role in developing low-income energy conservation and efficiency programs. With financial assistance from Toronto Atmospheric Fund and the Ministry of Energy, LIEN has developed a detailed program design for LDCs to consider including in their conservation and demand management plans for 2005 (*Low-income energy efficiency program*). LIEN also been working with the Vulnerable Energy Consumers Coalition on interventions on final CDM plan approvals before the OEB to encourage LDCs to include low-income programs in their CDM portfolios. LIEN has also provided a report to the Minister of Energy, *Low-income energy conservation and assistance*, which describes its integrated approach to low-income energy needs and makes recommendations on CDM programs, consumer protection and education, bill assistance, and emergency assistance. Emergency assistance includes financial assistance to pay bills as well as no-cut off policies for heating and electricity service for low-income consumers during the heating season as well as for seniors and vulnerable households during the cooling season. In addition, LIEN has also requested from the provincial government that there be a mandatory exemption for low-income households from consumer security deposit requirements.

<sup>4</sup> Statistics Canada, 2001 Census of Population. Incidence of low income among the population living in private households, provinces – Ontario. Low-Income Cutoffs (LICOs) published by Statistics Canada, using pre-tax, post-transfer household income are currently the best approach for defining low-income. Post-tax

majority of low-income people in Ontario, approximately two thirds, live in tenant households<sup>5</sup>.

Low-income households face a much higher energy burden (percent of household income devoted to energy costs) than median and higher income households. Statistics Canada data show that in 2003, the lowest income quintile of Ontario households spent nearly six times more on water, fuel and electricity than did the highest income quintile. On electricity alone, Ontario households in the lowest income quintile spent 6.13% of their pre-tax income in 2003, nearly five times more than households in the top quintile that spent 1.03%<sup>6</sup>.

The lowest household income quintile in Ontario has a far greater proportion of households that:

- Have electric heating as their principal heating equipment (26.8% compared to a number too unreliable to be published for the highest quintile)
- Use electricity as the principal heating fuel (30.9% compared to 9.2% for the highest quintile)
- Use electricity as the principal heating fuel for hot water (42.3% compared to 19.7% for the highest quintile)
- Have principal heating equipment more than 10 years old (73.7% compared to 49.3% for the highest quintile)

Higher electricity costs will increase the energy burden for low-income consumers as commodity costs rise to match the true price of the commodity. For many low-waged workers and people on social

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LICOs adjust for federal and provincial income taxes, but do not reflect regressive taxes such as EI and CPP premiums, GST, provincial sales taxes and property taxes.

The pre-tax, post-transfer LICOs vary according to family size and size of community. Persons and families living at or below these income levels are widely considered to be living in straitened circumstances. Both the Canadian Council on Social Development (CCSD) and the National Council of Welfare (NCW) have adopted the Statistics Canada pre-tax, post-transfer LICOs as poverty lines.

<sup>5</sup> Advocacy Centre for Tenants Ontario, November 5, 2003. Rental Housing in Ontario – quick facts.

<sup>6</sup> The electricity bills for an average residential customer consuming 1000 kWh per month currently range across the province from \$87 to \$124 per month. For a single mother with two children on social assistance, this represents 16% to 22% of her maximum shelter allowance of \$554. For a single person working 35 hours a week at minimum wage (\$7.15) this represents 8% to 11% of this worker's total monthly pre-tax income of \$1084.42.

assistance and other income security programs, it will mean choosing between heating and eating and paying the rent.

## 1.4 Issues and positions

Based on an understanding of the energy burden that low-income consumers in Ontario face, LIEN has identified the issues it wishes to address and the positions it wishes to take. The specific issues and positions that LIEN is pursuing in the RPP process, as submitted in its request for funding to the Ontario Energy Board (OEB) to participate in the RPP, are:

- **Price signals to encourage Demand-side management (DSM/CDM)<sup>7</sup>**, LIEN supports the establishment of appropriate price signals to encourage aggressive conservation and to enable special DSM programs for low-income consumers.
- **Low-income assistance rate**, LIEN's position is that universal, non-discriminatory access to electricity must be ensured for everyone in Ontario. LIEN intends to pursue the establishment of a low-income assistance rate for low-income households, within an overall RPP model where the price of electricity reflects its true cost.
- **Peak/off-peak pricing**, LIEN supports the establishment of peak/off-peak pricing that provides residential consumers, including low-income households, with an incentive to shift electricity usage to off-peak hours without reducing the quality of life.
- **Equal billing**, LIEN intends to pursue the establishment of a requirement for utilities to offer residential consumers, including low-income consumers, the option of equal billing.
- **Electricity price true-ups**, LIEN's position is that there should be frequent true-ups (e.g. quarterly) of the electricity price in order to minimize the difference in quantum of required rate adjustment, with appropriate measures taken to ensure universal, non-discriminatory access.

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<sup>7</sup> Demand-side management (DSM) is a broadly used general term that describes conservation and demand (CDM) management activities. On the electricity side in Ontario, these types of activities are now being referred to as CDM.

This report, which is LIEN's submission to the Ontario Energy Board's Regulated Price Plan proposal (RP-2004-0205), will be structured according to these five issues.

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## 2 Price signals to encourage DSM

LIEN supports full cost pricing. However, it believes that it is equally necessary to provide special assistance to help low-income consumers deal with these higher prices. As a result, in addition to specific rate assistance set out in section 3, LIEN supports the establishment of appropriate price signals to encourage conservation and energy efficiency, which go hand-in-hand with targeted demand-side management (DSM/CDM) programs for low-income consumers, programs to help low-income consumers manage bill payments, and emergency assistance as a last resort. LIEN notes that many of the features of the Board's RPP Proposal issued December 7, 2004 have a focus on full cost pricing and bill assistance.

### **Forecast cost as primary determinant of RPP price**

The Board proposes to recover expected supply costs of the RPP, including supply-related costs incurred by the Ontario Power Authority (OPA) in meeting RPP supply obligations, in rates set and charged prospectively. The future looking nature of RPP electricity rates will signal the "true" cost of electricity to be sold under the RPP within a 12 month planning period.

Expected supply costs are to be based on Board forecasts of market demand, supply and price. A portfolio of supply for the RPP is to be made up of electricity from designated OPG generation, from NUG contract generation, and the IMO-administered market as the balancing supply. LIEN's understanding is that the forecast of supply costs from this portfolio will have the enhanced credibility of being carried out independently by the Board and that the Board's intention, as confirmed in the Board's workshop on December 14, 2004, is that the process be transparent.

LIEN welcomes the future looking nature of such pricing and the transparency of the process as giving both an appropriate and a credible signal to RPP consumers, many of whom are low-income consumers.

### **Choice of forecast period**

In LIEN's view, the choice of forecast period can potentially be important in determining a most relevant and best price signal. The Board proposal describes a method whereby forecasts would be prepared for "fixed" RPP years (e.g. each year ending April 30 as LIEN understands it). Although the first forecast in a fixed RPP year would be for 12 months, beyond the

first year LIEN would be somewhat concerned about the diminishing value of a subsequent 9 month price forecast (combined with 3 months of actual data) and then, at some point after that, pricing off nine months actual and a 3 month forecast. LIEN is concerned that this process may lead to forecasts of prices for the fixed RPP year changing considerably by the fourth quarter and not being a realistic forecast of prices going forward into the first quarter of the next year. This process would be repeated each year.

LIEN has been informed that supply pricing under some NUG contracts may be subject to annual escalation. In any event, cost-of-service pricing for regulated OPG supply can change annually, and supply pricing in the IMO-administered market will no doubt change. As such, in LIEN's view, each supply cost forecast made by the Board, if it is to provide a current and consistent signal of how electricity prices are changing, should be for a rolling 12 month forward period. This would lead to smoother, more stable, changes in price as prices eventually change quarterly under a future RPP.

### **Time frame for variance accounting, combining cost recovery and forecast supply price changes**

In LIEN's view, variance accounting can be done monthly to a recent month end, with sufficient accuracy for price adjustment purposes<sup>8</sup>. LIEN understands that the monthly variance account balances are affected by differences in both seasonal usage and seasonal supply prices and that criteria for variance account recovery (and, in general, and "combined" price changes) must be based on a 12-month pattern ("forecast", but probably heavily relying on past seasonal patterns). LIEN believes that variance accounting can be month to month and historical and, hence, have a time frame that is different from the time frame for forecasting supply costs. Each time rates are changed and true-ups are incorporated, the forecast of future variances should, of course, be zero.<sup>9</sup>

The price change necessary to reflect both a new supply cost forecast and recovery of a variance account balance should be combined in setting rates. Criteria should then be applied to the combination to determine if an RPP price change is warranted. This combined price change makes it easier to implement for the OEB and utility companies, and for customers, such as low income customers, to respond to, as they will be responding to one price change only.

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<sup>8</sup> Further supply cost adjustments, which may be slow to be recorded, can be carried forward into the variance for the next period and significant variances within any 12 month period are to be expected.

<sup>9</sup> LIEN's expectation is that the RPP will move to quarterly adjustments, which it supports.

Variance account true-ups are not expected to be large, especially if done quarterly. In any event, they should not be a key component of the commodity price. If in any period, due to unusual events, a true-up would be large, the Board should consider flowing it through to rates over a longer period, say 24 months rather than 12 months<sup>10</sup>. Each true-up adjustment should be small and one may offset another, thereby providing stability in the effect of the variance account true-up portion of the price.

As the plan evolves beyond the first year, and some utilities can better cope with billing, LIEN sees merit in having regular quarterly price adjustments that customers can in fact anticipate. Prices of other commodities change more frequently. In this way current prices could more accurately reflect the prices that are expected for the next 12 months. If a quarter passes without meeting the threshold for a price change, then that fact could be communicated to customers on their bill, as a placeholder for a return to quarterly changes.

### **Adjustments for customers leaving or joining the RPP<sup>11</sup>**

The fact that customers on RPP pricing will face rates based on a forecast of annual supply costs means that, even with seasonal pricing, what a customer pays will not likely match the supply cost in any one month. Commencing in May the customer will quite likely be overpaying for each KWh, and in January the customer will quite likely be underpaying. The customer essentially builds up a credit in the early months related to this “seasonal” price variance, and draws it down in the later months. As the Board has set out in its proposal, in order for the RPP to be “neutral” with respect to a customer’s other commodity price opportunities, a customer leaving the RPP plan early in the fall may require a credit and one joining in the fall may require an additional payment to join the plan (equivalent to an estimate of the price variance which would have built up).

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<sup>10</sup> LIEN notes that, if another true-up is warranted, it, too, can be reflected in rates, so that the new rates would be adjusted to take into account two or more variance amounts and one supply price forecast rather than just one variance amount and a supply price forecast. LIEN understands that this “pancaking” or layering on of adjustments has not been uncommon in other jurisdictions, for example, in Alberta for gas through “rate riders” and in pancaking of interim rate increases before the US Federal Power Commission and its successor the FERC.

<sup>11</sup> LIEN notes that with a well- designed RPP, especially one that takes fully into account the needs of low-income consumers and, in particular, offers a low-income assistance rate, it is likely that low-income consumers would be inclined to stay on an RPP model.

LIEN notes, however, that if this credit or charge were to be dependent on variances left over from a previous RPP year, then one is into a potentially objectionable form of retroactive ratemaking<sup>12</sup>.

Distinguishing the particular types of price variance may require further consideration so that these adjustments for “neutrality” use an estimate of the appropriate price variance, and only that.

Put another way, unless prices are forecast quarterly for only a quarter and not for a year, LIEN sees no way of getting away from the need to “imply” a one year contract and, when a customer leaves or joins, to adjust for seasonal price variances which naturally build up and are drawn down throughout the May to April electricity year. This is a matter of fairness which affects all customers on the RPP plan.

### **Variance account balances also to be “recovered forward”**

Supply cost differences from revenues at posted rates (“variance amounts”), accumulated in a variance account administered by the OPA, will be recovered forward in RPP prices for electricity for ongoing customers of the RPP. Hence, consumers will, in this case also, be able to plan consumption knowing that their rates will change only prospectively and not retroactively. The signal they will see in the price, which includes supply cost forecast and true-up, will be something the consumer can plan on reliably until the next price adjustment.

This ability to be able to plan expenditures for electricity is of significant benefit to low-income consumers, as these consumers pay a higher portion of their disposable income toward electricity and have a small amount of discretionary expenditure for emergency situations such as unexpectedly high electricity costs. They will have significant difficulty buying energy at one price and then having the utility (or any representative of a regulated price plan), tell them that, after true-up, the price for that past consumption was really somewhat higher and they must pay up the difference. This “retroactive” component of ratemaking was the accepted approach for recovering variance account balances in OEB regulated pricing for natural gas until 2003. The Minister of Energy has criticized this approach in the Legislature. Hence, with the exception of seasonal price variance adjustments, limited to the current electricity year for an individual leaving or joining the system, LIEN

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<sup>12</sup> Other sellers of electricity under one year fixed price contracts face the seasonal price variance just described and would no doubt insist on adjusting for it if the customer left during the contract year. But other sellers would not ask that customer to make up for a negative variance associated with a prior year (before the commencement of this contract year). They would only “hope” to be able to set prices in the future to make up past misfortune.

supports the forward recovery of variance account amounts in prices set and charged for prospective consumption.

### **Combining true-ups and forecast supply price changes**

Combining price adjustments to reflect both true-ups and to reflect reforecast of supply costs will be less likely to cause confusion in signals, such as would result from too many changes in the commodity price of electricity. Low-income consumers, and perhaps all residential consumers, will benefit from the simplicity of one price change instead of two or several, as this will facilitate bill payment management. The potential for confusion is less if they receive one price signal instead of two. LIEN supports the predictability of rates changing once (eventually once quarterly) and combining all relevant adjustments in the same price change as a favourable feature of the proposed RPP. This approach sends a clear signal as to the current outlook for supply costs over the next period.

### **Seasonal pricing to reflect seasonal supply cost differences**

LIEN supports the seasonal pricing included in the Board's proposal for the RPP. As noted in that proposal, there is a disproportionate share of low-income consumers with electric space heat, with 25% of low-income consumers with electric heat compared to 12% for all residential consumers<sup>13</sup>. As a result, in the winter months when electric heat is critical, low-income consumers will be faced with higher bills in order to keep warm. To mitigate this problem to some extent, the Board is recommending a higher seasonal threshold in winter than in summer, and LIEN strongly supports this approach.

LIEN does not support the alternative proposal put forward by the Board of no differences in seasonal prices. In LIEN's view, it is important for all consumers to be given the message about relative differences in supply cost from one period to another. The seasonal difference is one message or signal that can be given now (without smart meters). LIEN supports pricing to signal this seasonal cost difference to consumers served through conventional meters and through smart meters.

In a competitive market, the market would determine seasonal supply costs and differentials. In a market with dominance of some suppliers and/or regulated prices for some generation, the differentials may be distorted by the imperfect market or by judgmental allocations of cost by

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<sup>13</sup> The Statistics Canada data for 2003, just released mid-December 2004, indicate that almost 27% of low-income consumers have electric heating as their principle heating equipment.

a regulator. Hence, it may be a challenge for the Board to determine an appropriate differential to build into the regulated price plan. Nonetheless, LIEN encourages the Board to adopt seasonal pricing that recognizes this cost differential. Even if the estimate of the differential requires adjustment later, some estimate is preferred over no estimate.

While LIEN concurs with the Board that the climate in Ontario results in a greater need for heating in winter than cooling in the summer months, this does not mean that the needs of low-income consumers for whom air conditioning is not a discretionary matter – such as the elderly, people with disabilities, or the medically vulnerable – should not be addressed. In 2002, 15% of adults with disabilities in Canada lived in low-income households, more than double the percentage of adults living without disabilities<sup>14</sup>. Also in 2002, 11.5% of all persons 65 and over in Ontario are low-income, which is 166,000 seniors<sup>15</sup>.

As a specific concern, LIEN urges the Board to investigate further in the coming months the special needs of low-income consumers who are elderly, who have disabilities or are medically vulnerable, and who require air conditioning or other high electricity uses during the summer season (and typically all year round) to deal with health matters<sup>16</sup>. LIEN would be pleased to work with the OEB on this matter during 2005, so that the RPP for 2006 can better reflect these concerns.

LIEN recognizes that the Board proposal addresses the structure of prices to be set under an RPP, not the actual prices or price differentials. It has not yet proposed actual prices, nor has it proposed specific differentials that are important to two-tiered pricing and to seasonal price differentials. The actual price levels and price differentials will determine the strength of the signals that are to be provided. LIEN will be keenly interested in the actual numbers and in the responses in demand that may materialize over time.

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<sup>14</sup> Advancing the Inclusion of Persons with Disabilities. Government of Canada. 2004.

<sup>15</sup> Excerpt from Income Trends 2002 CD-ROM, 202-0802 - Persons in low income, annual. Statistics Canada.

<sup>16</sup> A case in point is the special needs of elderly low-income consumers paying their electricity bills directly and requiring supplemental medical equipment.

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### 3 Low-income assistance rate

LIEN's position is that universal access to electricity must be ensured for everyone in Ontario. LIEN recommends the establishment of a low-income assistance rate for low-income households, within an overall RPP model where the price of electricity reflects its true cost.

LIEN points out that "special rates" have been and are currently offered to other consumers in Ontario's electricity market and that the establishment of a low-income assistance rate would not be unique. Where cross-subsidization is found to exist with such rates, it implies "discrimination" in pricing among consumers. Through most of the history of setting regulated prices there have been arguments about what discrimination in pricing is acceptable, or "due", and what is not acceptable, or "undue". To some extent, what is "due" discrimination can be argued on the basis of inherent cost differences and their relationships. However, to some extent, what is "due" discrimination can be a value judgment made at a point in time by people who may legitimately put more weight on meeting objectives quite different from a particularly-focused cost relatedness.

This application of value judgment in the electricity market has led to viewing the discrimination in the Rural Rate Assistance plan (providing otherwise lower electricity prices to rural consumers) as "due", and it has also led to accepting low pricing in contracts for the sale of electricity (the commodity) to large industrial enterprises as being "due", even if it did not cover the full costs of generation<sup>17</sup>. In other words, price discrimination can be considered to be acceptable if it meets some commonly held objective, such as, for example, universal access to a basic level of electricity service to a household.

#### Funding due discrimination

LIEN believes that it is justifiable to price to benefit low-income consumers, funded entirely from electricity prices charged to other consumers. These other consumers will pay only a small additional amount depending on how the low-income assistance rate and eligibility for the rate is designed. Bell Canada met a similar objective of "universal service" last century, in Ontario and Quebec, on the back of revenue from its customers and services that had lower costs to serve,

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<sup>17</sup> Such pricing to large consumers was contingent on not adding to an existing surplus of generation in the province at the time, thereby presumably ensuring lower average costs (and prices) to serve all other consumers over the planning time horizon of the initial term of the contracts

notwithstanding arguments of “cross-subsidization”. Similarly, in Alberta, natural gas transportation rates were set so as to charge short-haul traffic more than the cost to provide that service and to charge long-haul traffic, e.g. from new discoveries in northern Alberta, less than the cost to provide that long-haul service. This price discrimination was deemed “due” because it met a provincial government objective of assisting development of otherwise less economic (or uneconomic) gas fields in remote areas of the province (benefiting customers, however, who were owners of remote discoveries), and it was funded entirely by rates charged for the utility service provided to customers that imposed lower costs on the pipeline company.

Some have argued that the cost of meeting objectives of this sort should be funded out of general revenues of provinces and not out of utility rates. A practical compromise might be to fund half of the “cost” of a low-income assistance rate for energy from general provincial revenues and half from the rates charged to other electricity customers and for other services. However, the above examples justify pricing to benefit low-income consumers that is funded entirely from electricity prices.

### **Designing and administering a low-income assistance rate**

Low-income assistance rates are widely advocated and adopted in US jurisdictions.<sup>18</sup> These discount programs provide low-income consumers with a reduction on their energy bills, generally in one of three ways:

- A **fixed percentage** discount where low-income consumers receive a fixed percentage discount off their energy bill. In the U.S., these discounts range from 7% to 40%, depending on the state and utility, with some states waiving the tax on energy as a fixed percentage discount. In a small number of states, the discounts apply only during the costliest part of the year (e.g., West Virginia provides a 20% discount in the winter months).<sup>19</sup>
- A **fixed dollar amount** where low-income consumers receive a fixed dollar reduction on their bill, regardless of how much energy they consume. In many jurisdictions, such as Alabama and Mississippi, this fixed dollar amount is the monthly customer charge for energy

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<sup>18</sup> Mr. Roger Colton, Fisher Sheehan & Colton, Finance and General Economics, of Belmont, Massachusetts, evidence presented to Nova Scotia Utility and Review Board, October 22, 2004.

<sup>19</sup> Oppenheim, J. and MacGregor, T. Low-income consumers utility issues: a national perspective. Gloucester: October, 2000.

service<sup>20</sup>. Testimony submitted to the Nova Scotia Utility and Review Board on behalf of Dalhousie Legal Aid Service and others in October 2004 advocated a fixed dollar amount discount, or 'credit', for low-income consumers.<sup>21</sup>

- A **variable discount** where the low-income consumers' discount on energy reduces as their consumption level increases. For example, in Arizona, low-income consumers receive 30% off the first 400 kWh of electricity they use, then 20% off usage between 401 and 800 kWh, 10% off usage between 801 kWh and 1200 kWh, and a \$10 credit for any usage above that point.<sup>22</sup>

The administration of eligibility<sup>23</sup> for these low-income assistance rates can be relatively automatic for most of the eligible participants, and only a small fraction of such customers would require face-to-face interviews and individual case-on-case fact finding.<sup>24</sup>

Each discount type has its own benefits. The fixed percentage and fixed dollar amounts are relatively easy to calculate and administer, while the variable discount provides an incentive to conserve energy. Oppenheim and MacGregor indicate that the fixed dollar discount and the variable discount tends to be most beneficial to the lowest income households, while the fixed percentage discounts tends to be most beneficial for households that have high consumption levels with low levels of control over energy use (e.g. electric heating, rental units with inefficient appliances and large families). Discounts that vary with the seasons recognize the sharp differences in consumption that exist in certain climates and are thus designed to contribute to simplifying low-income

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<sup>20</sup> Oppenheim, J. and MacGregor, T. Low-income consumers utility issues: a national perspective. Gloucester: October, 2000.

<sup>21</sup> Evidence and argument for low-income assistance rates submitted to the Nova Scotia Utility and Review Board based on evidence of Mr. Roger D. Colton (Fisher Sheehan & Colton, Finance and General Economics, of Belmont, Massachusetts) submitted on behalf of a coalition of low-income consumers including Dalhousie Legal Aid Service and others, October 22, 2004. In this evidence, there is a specific Charter Right argument in favour of a low-income assistance rate that LIEN would be pleased to provide to the Board.

<sup>22</sup> Ibid.

<sup>23</sup> One simple approach to eligibility would be to adopt the approach to determining eligibility used by the legal aid clinics in Ontario. These clinics use a self-identification, requiring applicants to sign a legal form confirming their total household income and other details. For further discussion of this process and other options for determining eligibility, please consult, LIEN's report already filed with the Board in RP- 2004-0203 (IndEco, *Low-income energy efficiency program*, December, 2004).

<sup>24</sup> Oppenheim, and MacGregor.

budgeting. They may not be appropriate where an electricity use does not vary greatly by season.

LIEN recommends the introduction of a low-income assistance rate. However, LIEN understands that there may not be sufficient time to implement a low-income assistance rate for the 2005 RPP. Therefore LIEN recommends that the OEB research introducing such a rate assistance program in 2005, for inclusion in the 2006 RPP.

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## 4 Peak/Off-peak pricing

The Board proposes to introduce time-of-day<sup>25</sup> pricing with higher prices for peak period, lower prices for shoulder periods, and lowest prices for off-peak.

LIEN supports the establishment of peak/off-peak pricing that provides residential consumers, including low-income households, with an incentive to shift electricity usage to off-peak hours without reducing the quality of life. A shift in consumption to off-peak hours would reduce the need for generation of electricity from units having high marginal fuel costs. A permanent shift in consumption to off-peak hours would also indicate a need for construction of less generating capacity than otherwise would be the case, and again, all other things being equal<sup>26</sup>, this would reduce forecast supply costs.

LIEN supports pricing that reflects the differentially higher cost of supplying electricity in daily peak periods as compared to the cost of supplying electricity off peak, i.e. rates that reflect daily time of use (TOU). While LIEN supports such pricing, it is necessary to point out that low-income households are likely to have fewer discretionary appliances (e.g washers/dryers, dishwashers, electronic equipment) in their dwellings than other residential consumers. As a result, low-income consumers are likely to be less able to take advantage of the lower pricing provided by off-peak. In LIEN's view, even where it may be difficult to shift consumption, it is appropriate where possible to signal the cost through the price.

LIEN understands that daily TOU pricing requires appropriate smart meters. It is expected that some utilities may introduce smart meters more rapidly than others. There will also be sub-metering and multiple unit metering issues and barriers to overcome or work around. Sub-metering may result in tenants including low-income tenants, having to pay more for electricity, but with no control over the factors affecting electricity use and therefore limited ability to reduce consumption. For example, the typical low-income tenant has no control over the building envelope, whether the building is on electric heat and electric hot water heating, and the type of appliances chosen. The provincial government has committed to replace the *Tenant Protection Act, 1997* and LIEN

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<sup>25</sup> Time-of-day pricing is one type of time-of-use pricing. Another is seasonal pricing. LIEN's support for reflecting the differential in cost between winter supply and summer supply was noted earlier.

<sup>26</sup> For example, no major technological changes in generation

hopes that these landlord/tenant issues will be addressed effectively in the new legislation. LIEN is interested in working with the OEB on these matters as the new residential tenancy legislation is implemented and its features are taken into account in future RPPs.

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## 5 Equal billing

LIEN recommends the establishment of an arrearage policy to level off payments and facilitate budgeting, and also to deal with unforeseen price spikes. As part of this policy, LIEN proposes that LDCs in Ontario be required to offer all residential consumers, including low-income consumers, the option of equal billing. Equal billing programs should be designed to facilitate the uptake of the program by low-income consumers. LIEN suggests that such changes be made to the Standard Supply Services Code when other changes to the Code regarding the 2005 RPP are being made.

Equal billing plans can help low-income households to make their electricity bill payments. These plans do not change how much a customer pays for electricity, but simply even out the cost throughout the year, thereby reducing the higher energy burden of the winter heating season.<sup>27</sup>

As highlighted in the RPP proposal, a disproportionate share of residential consumers with electric space heating have low-incomes. Newly released Statistics Canada data shows that in 2003 almost 27% of low-income consumers have electric heating compared to just over a 14% share for all residential consumers. As stated in chapter 2, LIEN supports the introduction of a two-tier price plan under which the lower tier load threshold will be higher in the winter to accommodate increased demand for space heating load.

LIEN is concerned, however, that seasonal pricing may not be sufficient to deal with the extra energy burden faced by low-income households with electric heat. Low-income households have few discretionary dollars that can go toward spikes in electricity prices. For example in 1999 the typical Ontario low-income family had only \$200 to face unexpected expenses<sup>28</sup>. The provision of equal billing will provide additional necessary planning and financial assistance to low-income

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<sup>27</sup> LIEN recognizes that the format and content of the electricity bill is outside the scope of this proceeding. However, LIEN would like to point out that as long as the electricity bill contains information regarding consumption level changes since the previous billing (as well as for the same period the previous year would be helpful), the low-income consumer will be able to track consumption and make changes to these levels, where possible, in response to the information provided, even if the consumer is spreading electricity payments evenly across bills. A consumer knows that he/she can reduce the total annual bill.

<sup>28</sup> Perspectives on Labour and Income. "Families on the financial edge". July 2002. Statistics Canada. Catalogue no. 75-001-XIE. The \$200 figure was provided by Rene Morissette, Business and Labour Market Analysis, Statistics Canada. Personal communication, December 20, 2004.

households beyond that provided from the implementation of seasonal tiers.

To avoid customers owing their LDC a large balance at the end of the year, if they have consumed a lot more electricity than was assumed when determining the equal billing amounts, some LDCs, including Nova Scotia Power, roll the balance into the calculation of the next year's equal billing monthly payments. Similarly, if the consumer has overpaid, next year's monthly amount can be reduced to reflect the credit and lower annual usage<sup>29</sup>. LIEN supports this approach by Nova Scotia Power as a way to avoid consumers, including those that are low-income, owing the LDC a large balance at the end of the year. LIEN recommends that the OEB include this approach in the equal billing plans provided by LDCs.

LIEN understands that most utilities already offer equal billing to their consumers<sup>30</sup>. At present, offering equal billing is optional only if the LDC is offering the fixed reference price. LIEN is suggesting that the provision of an equal billing plan and one that facilitates the uptake of the plan by low-income consumers be a mandatory requirement in the future. If there is not sufficient time for LDCs to prepare to offer this program in 2005, then LIEN urges the Board to ensure that LDCs are ready to provide this option to its residential consumers with the 2006 RPP.

LIEN understands that even with equal billing to smooth out the spikes in bills, there will still be a need for emergency bill assistance similar to that offered by the Government of Ontario's \$2 million energy emergency fund and the one time annual relief of charitable organizations such as the Salvation Army and Share the Warmth. These reactive programs should, however, be considered strategies of last resort rather than a primary source of assistance for low-income consumers.

LIEN also recognizes that the need for equal billing should not obscure the signal for conservation. Paying the same every month should not be

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<sup>29</sup> Nova Scotia Power website. <https://www.nspower.ca/cgi-bin/YourBusiness/Public/paymentPlans.cgi>. Accessed December 14, 2004

<sup>30</sup> This is because under the Standard Supply Service Code, introduced by the OEB in December 1999, an LDC could make an application to the Board for an exemption to the fixed reference price requirement for small consumers and replace it with the weighted average hourly spot market price. (Standard Supply Service Code, Ontario Energy Board, December 1999) In order to be granted this exemption LDCs were asked to meet four requirements, one of which is that an LDC must offer an equal billing option to all small consumers that elect the service. Electricity Distributors Association website <http://www.eda-on.ca/eda/edaweb.nsf/6ceb9f6cb02c071f8525693800666843/7a0262dc877b61b185256a9b00565cd1?OpenAaaAAADocument>. Accessed December 13, 2004.

seen by consumers as the same as using the same amount of electricity. LIEN recommends that there should be a balance between the signal for conservation (transparency) and the provision of consistent and manageable electricity bills for low-income consumers. To assist in producing this balance, LIEN supports the Board's proposal to move to monthly billing, set to coincide with the accelerated penetration of smart meters in the market. In LIEN's view, this balance is also supported by the presentation of relevant comparisons on bills and through broad consumer education programs, such as in local media and in local community meetings in low-income neighbourhoods.

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## 6 Electricity price adjustments

### Frequency

LIEN supports measures that reduce any rate shocks faced by low-income consumers. LIEN recommends that there should be frequent true-ups (e.g. quarterly) of the electricity price in order to minimize large variance account balances that require rate adjustment.

LIEN understands the limitations on introducing quarterly true-ups from the outset and supports the OEB's proposal for transition from annual price adjustments in year one, to semi-annual adjustments with a trigger during the one or perhaps two transition years and a move to a quarterly approach, analogous to the natural gas Quarterly Rate Adjustment Mechanism (QRAM), to coincide with smart meter penetration in Ontario.

For other comments in respect to true-ups and price signals see pages 7-10 of this report.

### Notification

With regard to notification of price adjustments, the Board proposes that RPP consumers will receive notification 15 days before the effective date through an OEB news release and postings on LDC, OEB, and other websites. In addition to this requirement LIEN recommends that community agencies in Ontario that are in regular contact with low-income consumers, should also receive notice whenever there is a change in the price of electricity. This notification should also be given 15 days prior to the effective date.

This additional notice to low-income consumers is important. Web access for low-income consumers is limited. Therefore, it is likely that many of these consumers will not obtain their notice via the Internet. As a result, it will be helpful to receive notice through additional means such as by the agencies that these customers interact with on a regular basis. These agencies, as appropriate, may be able to help these customers plan for the higher prices that may ensue.

A list of these agencies is provided in Appendix A. This is not an exhaustive list; LIEN would be pleased to work with the OEB in developing a more comprehensive list.

Although not addressed in detail in the RPP proposal, the specific content of the price adjustment notifications is also important. LIEN recommends that the content of the notifications provided to the public should be written in plain language that is easily understandable by members of the public. The notification should be multi-lingual, where appropriate, and take into consideration cultural and disability barriers. LIEN also recommends that these notices provide examples of how consumers should expect their bills to change as a result of the price increase. An example of the information that should appear on the price increase notification is shown below.

**Impact on a monthly residential bill – at 750 kWh/mo.**

Bill before price increase	$750 \times 4.7 \text{ cents} = \$35.25$
Bill after price increase	$750 \times 5.0 \text{ cents} = \$37.50$
Total change in bill	\$2.25 increase per bill

**Impact on a monthly residential bill – at 1000 kWh/mo.**

Bill before price increase	$750 \times 4.7 \text{ cents} = \$35.25$
	$250 \times 5.5 \text{ cents} = \$13.75$
	= \$49.00
Bill after price increase	$750 \times 5.0 \text{ cents} = \$47.00$
	$250 \times 5.8 \text{ cents} = \$ 14.50$
	= \$ 61.50
Total change in bill	\$12.50 increase per bill

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## 7 Recommendations

This report has provided detailed comment on the Ontario Energy Board's Regulated Price Plan proposal for 2005. The key comments and recommendations presented by LIEN are summarized below.

### Price signals

- LIEN supports the establishment of appropriate price signals to encourage conservation and energy efficiency which go hand-in-hand with CDM programs for low income consumers.
- LIEN endorses the OEB approach to recover expected supply costs of the RPP prospectively.
- Each supply cost forecast made by the Board, if it is to provide a current and consistent signal of how electricity prices are changing, should be for a rolling 12 month forward period.
- LIEN notes that variance accounting and variance recovery may best follow a fixed electricity year approach, but suggest, in general, the forward recovery of variance account amounts in prices set and charged for prospective consumption.
- The price change necessary to reflect both a new supply cost forecast and recovery of a variance account balance should be combined in setting rates. LIEN supports regular and predictable rate changes - initially once a year and then moving towards a quarterly rate change – and combining all relevant adjustments in the same price change as a favourable feature of the proposed RPP.
- If in any period, due to unusual events, a variance account recovery would be large, the Board should consider flowing it through to rates over a longer period, such as 24 months rather than 12 months.
- LIEN endorses the seasonal pricing included in the Board's proposal for the RPP.

### **Low-income assistance rate**

- LIEN recommends the establishment of a low-income assistance rate for low-income households.
- Because of the likelihood of the lack of sufficient time to implement a low-income assistance rate for the 2005 RPP, LIEN recommends that the OEB research low-income rate assistance programs in 2005, for inclusion of a low-income rate assistance program in the 2006 RPP.
- LIEN recommends that the Board investigate further in the coming months the special needs of low-income consumers who are elderly, people with disabilities or the medically vulnerable, requiring air conditioning or other high electricity uses during the summer season (typically all year round) to deal with health matters, and to take these findings into account in the development of the RPP for 2006.

### **Peak/Off-peak pricing**

- LIEN supports the establishment of daily peak/off-peak pricing that provides residential consumers, including low-income households, with an incentive to shift electricity usage to off-peak hours without reducing the quality of life.
- LIEN has noted the reduced flexibility for low-income consumers to shift their load and, hence, emphasizes the importance of a low income assistance rate to accompany daily peak/off-peak pricing.

### **Equal billing**

- LIEN recommends the establishment of an arrearage policy for low-income consumers to level off payments and facilitate budgeting, and also to deal after fact with unforeseen price spikes.
- LIEN recommends that LDCs in Ontario be required to offer all residential consumers, including low-income consumers, the option of equal billing, with the plans being designed to facilitate low-income consumer participation.

- LIEN recommends that a customer's be given an explicit option, at the end of an equal billing cycle, to roll any credit or balance into the next year's equal billing monthly payments.
- LIEN suggests that the changes necessary for requiring equal billing be made to the Standard Supply Services Code when other changes to the Code regarding the 2005 RPP are being made.
- If there is not sufficient time for LDCs to prepare to offer this equal billing program in 2005, then LIEN urges the Board to ensure that LDCs are ready to provide this option to their residential consumers with the 2006 RPP.
- LIEN recommends that there should be a balance between the signal for conservation and the provision of manageable electricity bills, facilitated by the eventual adoption of monthly bills, and the immediate use of on-bill comparisons, and consumer education programs..

### **Electricity price adjustments**

- LIEN recommends that there should be frequent true-ups (e.g. quarterly) of the electricity price in order to minimize large variance account balances that require rate adjustment.
- LIEN endorses the OEB's proposal for transition from annual price adjustments in year one, to semi-annual adjustments with a trigger during the one or perhaps two transition years and a move to a quarterly approach.
- In addition to the notice provisions recommended by the Board which LIEN supports, LIEN recommends that community agencies in Ontario that are in regular contact with low-income consumers, should also receive notice whenever there is a change in the price of electricity. This notification should also be given 15 days prior to the effective date of a price adjustment.
- LIEN recommends that all notification be written in plain language. The notification should be multi-lingual, where appropriate, and take into consideration cultural and disability barriers. The notification should also include numerical examples of how consumers should expect their bills to change.

## Appendix A. List of Organizations to Notify for RPP Price

Organization	E-mail address
Legal aid clinics in Ontario	clnexecd@lao.on.ca  <b>This will go to the direct attention of the executive director of each legal aid clinic in Ontario.</b>
Green Communities Association	affordable@gca.ca
Durham low-income housing	housingop@durham-housing.com
Ontario Non-Profit Housing Association (ONPHA)	mail@onpha.org
Davis Renovations	tecnican@look.ca
Ontario Tenant Toronto Tenants	ontariotenants@mycybernet.net
Albion Neighbourhood Centre / Etobicoke Housing Help Centre	ans@interhop.net
Canadian Auto Workers	caw@caw.ca
Canadian Mental Health Association	info@cmha.ca
Catholic Family Development Centre – Thunder Bay	cfdc@catholicfamilycentre.ca
Centre for Social Justice	justice@socialjustice.org
Centre for Urban and Community Studies, University of Toronto	urban.centre@utoronto.ca
Community Social Planning Council of Toronto	cspc@cspc.toronto.on.ca
Conservation Council of Ontario	cco@web.ca
DisAbled Women's Network Ontario (DAWN)	dawnontario@sympatico.ca
Federation of Metro Tenants Association	hotline@torontotenants.org

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Green\$aver	info@greensaver.org
North Kingston Community Health Centre	info@nkchc.com
North Lanark County Community Health Centre	info@northlanarkchc.on.ca
Ontario Coalition for Better Child Care	info@childcareontario.org
Ontario Coalition for Social Justice	ocsj@ocsj.ca
Parkdale Liberty Economic Development Corporation	coordinator@parkdaleliberty.com
Public Interest Advocacy Centre (PIAC)	piac@piac.ca
T.H.R.I.V.E	thriveprogram@hotmail.com
Woolwich Community Services – Waterloo	wcs@execulink.com

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