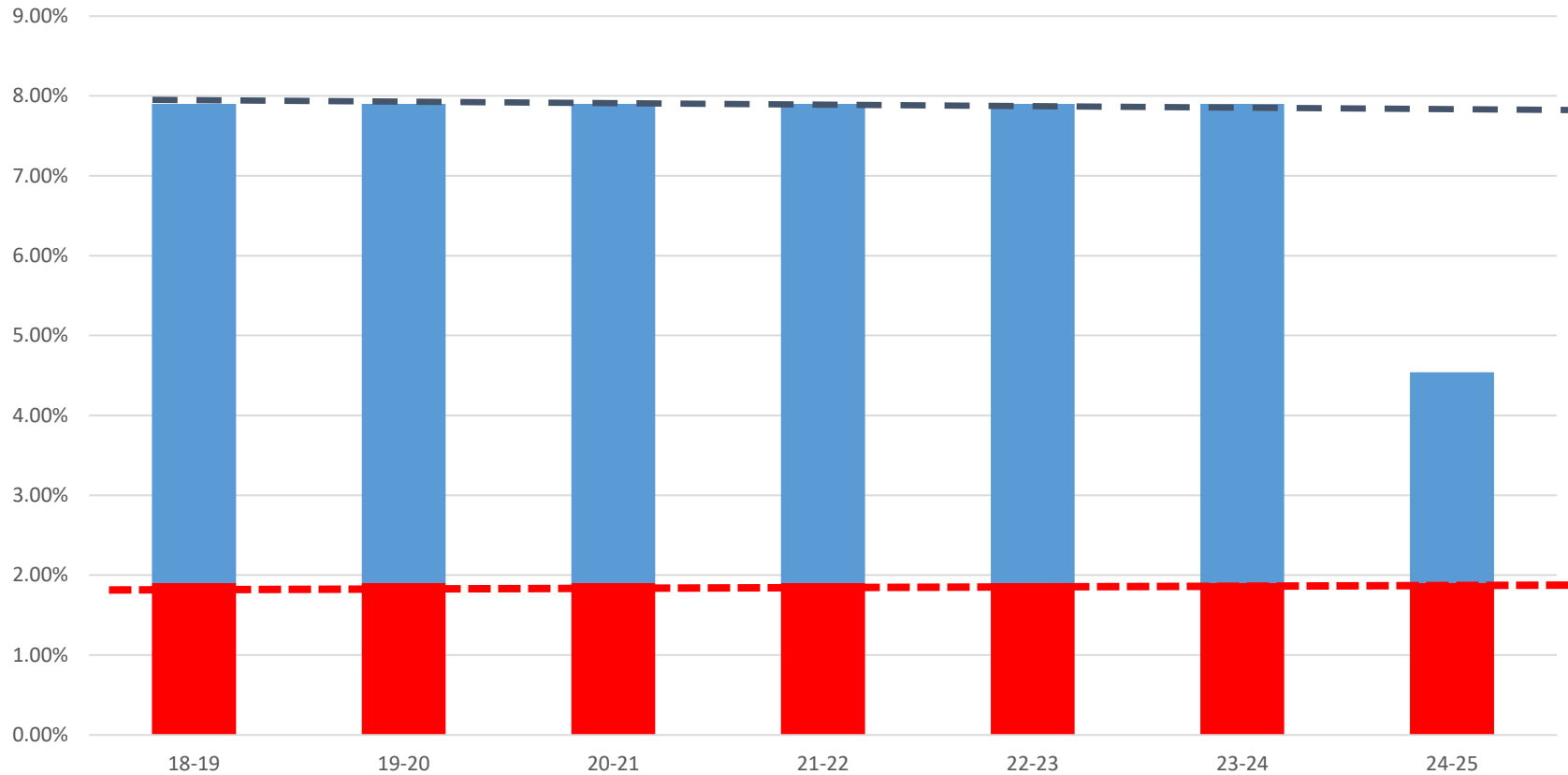


Energy Poverty in Manitoba and the Impact of the Proposed Hydro Rate Increase: An Assessment of the Bill Affordability Study in the Manitoba Hydro GRA

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Manitoba Hydro is Proposing Significant Rate Increases Above Forecast Inflation



Increases: 6%
Annually Above
CPI to 23/24,
2.64% 24/25,
or 45.6%
18/19-24/25

CPI Forecast:
1.9% (Appendix
3.2, p. 10)

Will Proposed Increases Impose Hardship on Manitobans?

- PUB thought so when proposed rate increases were less than 4% in 2015
- PUB Order 73/15: directed Manitoba Hydro to “lead a collaborative process to develop a bill affordability program harmonized with Manitoba Hydro’s other programs supporting low-income ratepayers”
- Manitoba Hydro convened a Bill Affordability Working Group with interested stakeholders. The Working Group commissioned research and issued a Summary Report and Recommendations in January, 2017 (Appendix 10.5)

Key Objectives of the Bill Affordability Working Group

- (1) Creation of a “made-in-Manitoba definition of energy poverty” to study its nature and impact in Manitoba
- (2) Assessment of existing programs aimed at energy affordability for low-income citizens
- (3) Analysis of customer arrears (unpaid bills)
- (4) Analysis of the impact of projected rate increases on low-income customers
- (5) Provision of recommendations for new or improved programming to address energy poverty

(pp.12-13 of the Affordability Report)

A “Made-in-Manitoba Definition of Energy Poverty”

- Would look at the energy consumption of lower income **Manitoba** households, i.e. in a northern prairie climate
- As income falls, does energy consumption take a larger proportion of the household budget, leaving less and less income for other necessities (food, shelter, clothing, etc.)?
- There is a substantial rise in the Hydro expenditure share as household income declines (Coalition/MH II-44), but there is no analysis of this relationship in the Report
- The Report instead defines energy poverty based on 2 criteria drawn from the broad literature **outside Manitoba**:
 - a **threshold expenditure share** of 10% or 6%
 - a **level of household income** that is 125% of the LICO for communities with more than 500,000 inhabitants

Who are the Energy Poor in Manitoba?

- The definition of the energy poor is based on criteria for other climates and economies than Manitoba
- The LICO-125 definition of low income accounts for family size
 - But not community size, standardized for large communities
 - But not regional differences in (housing) cost, e.g. between Vancouver and Winnipeg
- 20,000 of Hydro customers (14%) spend more than 6% of income on energy and 6,000 (4.2%) spend more than 10%
 - Almost all these households have **low incomes** (125% of LICO or less), i.e. it is poor households who are vulnerable to energy poverty and rising Hydro rates

What is the Impact of Proposed Rate Increases on Energy Poverty?

- Report simulates impact of various electricity price scenarios on energy poverty
 - Original scenarios: 3.95% for 12 years or 5.95% for 6 years or 7.95% for 4 years (pp.89-90)
 - Current scenario: 3.36% interim increase, current proposal for 7.9% increases for six years and 4.54% increase for the seventh year (AMC/MH II-23)
- simulation exercise assumes that price levels and household incomes will rise at the average annual rates experienced in Manitoba from 2009 to 2015 (1.78% and 2.96%) and no behavioural response to higher electricity prices (pp.57-58)

Impact of Proposed Rate Increases on Energy Poverty

- Original scenarios: Energy poverty incidence (6% threshold) rises from 9.7% to 11.9% (22.7% increase) in the long term (2029) but the interim effects are much larger for higher rates (7.95% for four years)
- **Current scenario: Dramatically higher impact of current rate proposals on energy poverty incidence**
 - rises from 9.7% in 2016 to 13.0% in 2021 (34% increase) and continues to rise to 15.2% by 2024 (57% increase) (AMC/MH II-23, Figure 7)
 - remains well above the original scenarios at 14.2% in 2029 (46% increase over 2016) and is still 13.0% (34% increase) by 2036!
 - energy poverty not only grows for a longer period but assumes a permanently higher level than the current experience

How will the Energy Poor React?

- Simulations depend on several assumptions, but perhaps the most unrealistic is **no behavioural response** to substantially higher real electricity prices, despite literature cited in the Report (p.57)
- A more realistic assumption is that the amount of energy consumed will very likely fall, at least in the long term, but
 - Energy demand is **price inelastic** and energy use will fall but by a smaller amount than prices rise so that energy consumption as a portion of income will rise, exacerbating energy poverty
 - **Adjustment of energy use will take time**, so that consumers will be less responsive over a short run that may be several years. The simulated impacts in the Report may be fairly accurate in early years until adjustments can be made in later years, possibly with policies to assist low-income customers to become more energy efficient

Policies to Combat Energy Poverty

- Report also lists its evaluative or design principles as
 - accuracy
 - transparency
 - evaluability
 - financial sustainability
 - equity
 - participation
- should consider **efficiency** as a design principle, i.e. full cost pricing and delivery of services (affordable energy) at least cost
- Potential policies to deal with bill affordability and energy poverty can be divided into two types:
 - (1) Rate assistance
 - (2) Energy efficiency
- How can these policies provide long-term assistance for the energy poor?

(1) Rate Assistance Programs

- provide direct relief to customers with limited ability to pay, which is primarily customers in the energy poverty group
- Manitoba Hydro rate assistance programs:
 - Equal Payment and Deferred Payment Plans assist household budgeting but are not directed at the energy poor and do not provide rate relief
 - Neighbours Helping Neighbours program provides **emergency** relief through community agencies and private donations to low-income customers but the scope is limited, directed to one-time assistance for temporary emergencies, and awareness of the program among the energy poor is low (19%); **program participation** is an issue
- Rate assistance programs elsewhere:
 - Emergency assistance widespread but of limited benefit to those faced with sustained electricity rate increases over a long period
 - Only Canadian jurisdiction to offer extended rate assistance is **Ontario**, following rate assistance designs in **Colorado** and Pennsylvania

Ontario Electricity Support Program (OESP)

- monthly fixed credit for electricity consumption based on household size and income
- additional credits for First Nations/Metis, electrically heated households, and households with individuals who rely on certain medical devices
- originally funded by higher rates of about \$1 per month to other Ontario ratepayers
- changes introduced July 1, 2017 provide for a 25% increase in rate relief and shifts the burden from ratepayers to general revenues and all taxpayers

Public Service Company (PSCO) of Colorado

- Most U.S. rate assistance programs are directly related to current usage, which provides direct assistance to those with energy poverty but limits the incentive to conserve energy and be energy efficient
- PSCO provides a fixed credit to low-income households to bring past total energy expenditure to the 6% threshold
- Fixed credit is based on past, not current, expenditure to target the energy poor directly (unlike Ontario) and encourage energy conservation (somewhat)
- PSCO combines its rate assistance with arrearage forgiveness and weatherization aids and requires recipients to enroll in the Low Income Home Energy Assistance Program and the budget billing program
- Idea of identifying the energy poor from rate assistance applications and coordinating programs for low income households seems valuable

Efficiency Considerations

- Report recognizes the importance of all Hydro customers contributing something to the cost of their energy consumption as an evaluative principle, but economic efficiency considerations go further to argue that customers should pay the full cost of their energy consumption
- Affordability considerations should be addressed by transfers that are independent of the price customers pay for the service
- likely an important justification for the fixed credit approaches taken by Colorado and Ontario
 - Colorado fixed credit to low-income households is based on past, rather than current, consumption to encourage energy conservation among the energy poor
 - Ontario fixed credit is based on household size and income to support poor households (energy poor or not) while maintaining incentives to conserve energy

Financing Rate Assistance

- Significant relief for those most seriously disadvantaged by proposed Hydro rate increases would be expensive and require new funding:
 - From ratepayers as in the original OESP (\$1 per month)
 - From taxpayers as in the revised, more generous OESP
 - Report/NFAT recommends a portion of the incremental capital taxes and water rental fees from Keeyask
- Other income security programs to provide basic necessities (EIA) are financed from general revenues
- A program to provide energy security as a basic necessity funded from general taxation would ensure that the burden of support would fall on higher income households, as in Ontario
- OESP projected annual cost of \$833M suggests an annual cost of \$80M for a **comparable** program in Manitoba during a period of emphasis on debt reduction

(2) Energy Efficiency Programs

- now widespread across most jurisdictions, including Manitoba
- important in addressing energy poverty in the long term
 - poor disproportionately occupy energy-inefficient older homes
 - poor lack the resources necessary to invest in upgraded housing stock, appliances and other energy saving devices
- Hydro's Affordable Energy Program (AEP) is a modest starting point
 - provides assistance to households below LICO-125 to implement energy efficient upgrades
 - Report notes that program uptake remains modest and that significant barriers to participation may exist, including awareness of the program and its benefits
 - affordability programs could be better coordinated to direct customers to initiatives that might help them manage their energy bills
 - jurisdictions like Colorado offer a model where rate assistance and arrearage management programs for low-income households are integrated with weatherization assistance programming

Affordability Report Recommendations

- Report recommends
 - Hydro should continue to do what it is doing on its energy efficiency and bill assistance plans
 - Hydro should consider initiatives to enhance equal payment and energy efficiency programming, encourage participation of landlords and tenants, mitigate cold-weather impacts by alternative rate designs, and develop a bill payment/matching program
 - Hydro should seek new funding sources, including a portion of the incremental capital taxes and water rental fees from Keeyask
- Will this be enough?
 - Proposed rate increases represent a **long-term problem for energy poverty** that only direct rate assistance and energy efficiency plans can mitigate

Additional Recommendations

- If we are to take energy poverty remediation seriously:
 - (1) Hydro and stakeholders should **continue research** into energy poverty and its characteristics using Manitoba evidence
 - (2) Hydro should **develop an efficient rate assistance program** that provides assistance to low-income energy poor households but that is not directly tied to the level of energy consumption along the lines of the fixed credit programs in Colorado and Ontario
 - (3) Hydro should **enhance its Affordable Energy Program** to assist lower-income households to implement energy efficient upgrades
 - (4) Hydro should **develop a plan to coordinate** rate assistance, energy efficiency and billing management programs for low-income households to increase participation in all aspects of affordable energy programming.