March 23, 2010

Mr. David Orazietti, MPP
Chair, Standing Committee on General Government
c/o Mr. Trevor Day, Clerk
Room 1405, Whitney Block, Queen’s Park
Toronto ON M7A 1A2

Dear Mr. Orazietti:

I want to thank the Standing Committee for providing the City of Toronto with the opportunity to comment and provide recommendations for improving Bill 235, the proposed Energy Consumer Protection Act, 2009, (please see attached submission).

As almost one half of Toronto’s population lives in rental housing, issues affecting the lives of tenants are of great importance to the City Government. The proposed legislation will have a profound impact on the day-to-day lives of a substantial proportion of our residents.

That is why Toronto City Council, over the last two years, has adopted a number of recommendations pertaining to the sub-metering of electricity in residential rental accommodations and has taken a leadership role in pointing out the need for transparent and clear actions for tenant protection. In particular, Council has identified significant concerns regarding increased financial burden for low-income tenants whose rental units become sub-metered.

Toronto City Council has also approved a range of initiatives to support energy conservation. These initiatives include the Mayor’s Tower Renewal initiative, the Sustainable Energy Strategy and our Climate Change Action Plan. Council has also approved a ten-year Affordable Housing Action Plan.

The City of Toronto is pleased that Bill 235 has identified the need for balance between energy conservation and tenant protection, two issues of significant concern to the City of Toronto. Indeed, it is fair to say that getting this balance right is critical to the future welfare of many of our tenants and success of our energy conservation initiatives. We share the Provincial Government’s interest in developing clear provincial rules and programs which maximise energy conservation while, at the same time, protect the rights of tenants and the affordability of rental housing.
Toronto believes that Bill 235 could go further in achieving its goals by including programs and further amendments to the Residential Tenancies Act, 2006 aimed at additional incentives to achieve energy conservation while protecting rental affordability.

In particular, we encourage a review of all aspects of the Residential Tenancies Act, 2006 with respect to permitted rent increases and rent reductions to ensure that tenants are able to benefit financially from capital work undertaken to reduce energy costs in their buildings, even in situations where they have not consented to sub-metering. We note that under the current scheme, tenants pay for capital expenditures aimed at reducing energy costs through above guideline rent increases, but do not benefit from reductions in operating costs from energy savings.

Energy security is a serious concern of the City Government. Close to half of all renter households in Toronto are living in homes they cannot afford, and over 75,000 households pay rents geared to income. Grants and other incentive programs are the surest and most direct way to achieve energy conservation targets, while protecting tenants from rent increases.

The cornerstone of Bill 235 is the premise that energy use will decline if tenants pay for the energy they use. We know from work done by Toronto Community Housing that tenant education programs are very effective in reducing energy use, even where tenants do not pay directly for electricity. We are not aware of any third party research demonstrating that sub-metering alone is an effective energy reduction strategy. As such, we recommend including provisions for the funding and delivery of tenant education programs. For social housing and affordable housing, where rents are based on tenant incomes rather than the market rate, programs such as the Social Housing Renovation and Retrofit Program will directly reduce energy demand.

Further, tenants will need support to be able to give informed consent to sub-metering. Energy audits, energy standards and methods for calculating rents are complex, technical matters, and it may not be reasonable to expect tenants to analyse these documents on their own, or to expect them to know when their landlord has breached a requirement. We recommend that the Provincial Government take a more active role in ensuring its conservation goals are achieved, rather than relying upon enforcement by tenants. For example, we recommend that the province review and approve any request to sub-meter prior to the landlord asking the tenant if they would agree.

Finally, we know from our Mayor’s Tower Renewal initiative that the most effective way to achieve significant and lasting energy savings is through whole building improvements, and in particular targeting the large numbers of high-rise residential concrete frame buildings built in Toronto and in other Ontario cities between the late 1950s and early 1970s. The majority of these buildings do not make use of modern insulation materials or other energy efficiency measures, causing huge amounts of wasted energy on heating and cooling. Bill 235 misses an opportunity to directly support major improvements, and therefore achieve major energy savings, and may actually detract from them as the incentive to conserve would be transferred to tenants, and tenant are not able to undertake such improvements.
Thank you again for the opportunity to comment on this extremely important legislative initiative and for your careful consideration of the City's submission and recommendations.

Yours truly,

[Signature]

Mayor David Miller
City of Toronto

Attachments

cc. Premier Dalton McGuinty
Hon. Jim Bradley, Minister of Municipal Affairs & Housing
Hon. Brad Duguid, Minister of Energy and Infrastructure
Hon. John Gerretson, Minister of the Environment
Hon. Madeleine Meiller, Minister of Community and Social Services
Members of Council
Joseph P. Pennachetti, City Manager
Written Submission to the Standing Committee on General Government of the Ontario Legislature

Regarding Bill 235
Energy Consumer Protection Act, 2009

March 23, 2010
Submission to the Standing Committee on General Government Regarding Bill 235
Energy Consumer Protection Act, 2009

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Submission to the Standing Committee on General Government
Regarding Bill 235
Energy Consumer Protection Act, 2009

A. Introduction

The City of Toronto welcomes the opportunity to provide recommendations to the Standing Committee regarding Bill 235, Energy Consumer Protection Act, 2009 (Bill 235).

As the largest municipality in Canada, with 2.6 million residents, the regulation of the provision of energy in rental units is of considerable interest to the City of Toronto because:

- 45.6% of our residents rent their homes;
- 46.6% of renter households are living in homes they cannot afford (paying more than 30% of their income on rent); and
- Toronto City Council has made substantial commitments to energy conservation and greenhouse gas emission reductions through the City's Tower Renewal Project, the Climate Change, Clean Air, and Sustainable Energy Action Plan (the "Climate Change Action Plan"), and The Power to Live Green: Toronto's Sustainable Energy Strategy (see Appendix).

The proposed Act has important implications for energy conservation and tenants' protection. As Ontario's largest city, and with its high proportion of tenants in large multi-residential buildings and social housing, the proposed legislation will have a profound impact on the day-to-day lives of a substantial proportion of our residents.

In addition to its climate change and sustainable energy commitments, Council has reviewed the province's proposals with respect to tenant suite sub-metering and
commends Ontario on its attempt to address the regulatory gap in respect of sub-meters as identified in the August 13, 2009 ruling of the Ontario Energy Board respecting sub-metering agreements between landlords and tenants. We share Ontario’s interest in developing clear provincial rules and programs which maximize energy conservation while at the same time protect the rights of tenants and affordability of rental housing.

However, Toronto believes Bill 235 could go further in achieving its goals by including programs and further amendments to the Residential Tenancies Act aimed at additional incentives to achieve energy conservation while protecting rental affordability.

In this submission, we will focus on the following four issues:

- Maximizing Energy Efficiency and Conservation
- Tenant Protection
- Enforcing Bill 235
- Transfer of Utilities in Residential Complexes with Six or Fewer Units

B. Maximizing Energy Efficiency and Conservation

The City of Toronto’s ten year Housing Opportunities Toronto Plan (HOT Plan), which was adopted in August 2009, includes a commitment to minimum building sustainability and energy efficiency requirements. As noted earlier, this commitment has been affirmed by the City of Toronto through the City’s Tower Renewal Project, the Climate Change Action Plan, and The Power to Live Green: Toronto’s Sustainable Energy Strategy

Price Signal Approaches to Conservation may Detract from Conservation

The City of Toronto is concerned that the provisions of Bill 235 do not go as far as they could go in supporting conservation while protecting tenants. A key concern is that Bill
235 is premised on price signals as being effective in persuading energy conservation by tenants. Tenants and their representatives have told us that having tenants pay directly for electricity rather than having it included in the rent removes the incentive from landlords to undertake energy efficiency improvements. Instead, the incentive to conserve is transferred to tenants, and tenants are often the least able to undertake conservation improvements.

We are concerned that sub-metering may actually detract from conservation by removing the incentive from landlords to make conservation improvements. As noted by Enerlife in 2006, "the possibility of sub-metering regulation in future, by which residents would assume payment for electricity use, discourages landlords from considering in-suite capital investment for energy conservation" (emphasis added).

*Significant Energy Savings Result from Whole Building Upgrades*

We know from experience that the most effective measures to reduce energy use are those which deal with building systems as a whole. The holistic approach is widely recognized as the way to achieve the best and most cost effective building performance. Bill 235 could further contribute to maximizing conservation potential by including provisions for overall building energy standards to be met by building owners or for certifying when such standards are met (e.g. something akin to LEED for Existing Buildings) in advance of sub-metering of any unit in the building. These measures should include provisions for ongoing monitoring to ensure that energy savings continue to be met and that buildings are upgraded as new technologies become available.

We recommend that Bill 235 include provisions for upgrading the entire building – both common areas and individual units - to achieve reasonable efficiency standards in advance of permitting sub-metering of individual units. The Bill should also include provisions for ongoing monitoring of the standards and upgrading, to ensure that conservation and efficiency are maximized.

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Grants and Incentives

As more and more units move to paying directly for electricity, whether through the consent of the sitting tenant or upon turn-over of the unit, there may be less and less incentive for landlords to make energy saving improvements to buildings. Ongoing monitoring, over and above requiring tenants to enforce conservation through applications to the Landlord and Tenant Board (LTB) or Above Guideline Applications by landlords, may be required.²

An effective strategy for maximizing energy conservation is through grants programs. Direct incentives to landlords to upgrade buildings and replace old equipment and appliances will directly contribute to energy savings. An added benefit is that tenants would be protected from rent increases that they might otherwise experience if the full cost of capital work were passed on into their rents. Incentive programs directed to tenants of sub-metered and directly metered units to upgrade or replace appliances they own, such as window air conditioners, will also directly contribute to energy savings. Bill 235 does not include provisions for incentive programs for building owners and tenants, which could be a useful mechanism in ensuring the conservation objectives of Bill 235 are met. Further, tenants in sub-metered units are not able to benefit from the types of incentive programs routinely offered to tenants who are direct clients of utility providers such as Toronto Hydro.

Easily accessible incentive programs are also an effective way to protect affordable rents. In 2009, the City of Toronto noted that, “Incentive programs are important for residential rental properties because they can reduce rent increases that might otherwise be charged to tenants for capital improvements related to energy efficiency

² See e.g. Homby, R. et al. Advanced Metering Infrastructure – Implications for Residential Customers in New Jersey (Synapse Energy Economics, Inc., July 8, 2008), prepared for New Jersey Department of Public Advocate Division of Rate Counsel (argues that utility operating costs will exceed savings such that other measures will be required to compensate for the shortfall).
and conservation” (Staff report: Ontario Energy Board Decision on Installation of Smart Sub-Metering Systems in Rental Residential Buildings, September 29, 2009).

Please note that the bulk of the provisions in Bill 235 apply only to sitting tenants, not to new tenants. This means that incoming tenants will be responsible for electricity bills without having consented to sub-metering, and without the benefit of any retrofits to the building envelope or new energy efficient appliances. In order for Bill 235 to resonate with incoming tenants, the long-term efficiency of the rental building must be considered.

Incentive Programs and Social Housing/Affordable Housing

The City of Toronto provides funding for social housing providers. Currently about 28% of the City’s conventional rental housing stock is social housing, which represents a major opportunity to achieve conservation goals.

Bill 235 may not apply to social housing buildings, unless such buildings have already been sub-metered. Affordable housing buildings are subject to Bill 235. It is our experience in the City of Toronto that both social housing buildings and other types of affordable housing are similarly unresponsive to the premise underlying Bill 235. Social housing and affordable housing do not respond to price signals in the same manner as market housing as rents are generally not related to costs, but rather set based on social principles and secured by different types of agreements depending upon the programs under which the housing was funded. Even if the installation of sub-meters were an effective energy efficiency strategy, social housing and affordable housing providers would have difficulty introducing such measures as a result of the financial constraints faced by their very vulnerable tenants.

Accordingly, affordable housing providers wishing to sub-meter as an energy efficiency strategy may have difficulty doing so in the absence of express incentive programs or assistance. Programs such as the City’s Better Buildings Partnership and the
provincial-federal Social Housing Renovation and Retrofit Program, have successfully resulted in social housing providers investing in measures such as energy efficient heating systems, new windows and energy efficient appliances, among other strategies. Such programs would further the aims of Bill 235 in both social and affordable housing.

We recommend that Bill 235 include provisions for grants and other direct incentive programs to achieve energy conservation in multi-residential rental buildings including social and affordable housing.

Education Programs can Help Tenants Conserve

The City of Toronto, supported by the Ontario Power Authority and in partnership with other municipalities, is undertaking projects that clearly demonstrate the role of building occupants and operators as critical to attaining optimal and sustained energy savings. The multi-year study of "Energy Savings through Education and Training" is underway in Toronto Community Housing sites with strong indications of what is needed to make a program successful.

Since 2007, GLOBE (Green Light on a Better Environment - part of Social Housing Services Corporation), Toronto Hydro and Social Housing Services Corp. (SHSC) have offered a free program called Light Up, which provides training, community engagement

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3 One element of the strategy which has been successful is having tenants as community animators to teach their peers about energy conservation (Toronto Community Housing staff report, “Community Animation Model for Green Plan Initiatives”: http://www.torontohousing.ca/webfm_send/5795/1). “The tenant engagement pilot in 2 & 5 Brahms has proven to be a “prototype” tenant participation approach that yielded success and dividends in terms of measurable savings in the order of 7-10%. The PACE Quantec studies and similar published case studies in British housing associations indicated the soft savings could be attained between 2% to 16 % from tenant education and staff engagement programs (Toronto Community Housing, “Report on Investment Savings” p.15)
http://www.torontohousing.ca/webfm_send/4599/1
and a light bulb exchange on energy conservation. Light Up has reached almost 30,000 households and shelters. After three years, Light Up resulted in a reduction in Toronto’s demand for power by 6.65 megawatts - the equivalent of electricity used by 4520 homes annually.

Tenant education is particularly critical given that Bill 235's focus is on sending "price signals" to tenant households to reduce their discretionary energy use. There is no evidence that whether initial reductions in energy use following installation of smart meters will be sustained.

We recommend that Bill 235 include provisions for funding and delivery of programs to support tenant education on how to reduce energy use and conserve electricity.

C. Tenant Protection

Under Bill 235, when a building switches to sub-metering, tenants would pay for their own electricity use and in return, get a reduction to their rent. In considering reports about sub-metering, Council has identified significant concerns about the potential of sub-metering to increase the financial burden for low income tenants.

With respect to Bill 235, it is critical that tenants are provided with every support to make an informed decision, to have energy costs reduced to their lowest possible level, and to minimize potential additional and future costs related to energy rate increases and above guideline rent increases. Rent reductions must be fair and easily enforced, and the Residential Tenancies Act (RTA) should be amended to include provision for ensuring that tenants benefit financially from capital work undertaken to reduce energy costs in their buildings, in addition to energy savings that may result from upgraded appliances. To protect vulnerable tenant households from extraordinary rate increases, well funded and easily accessible programs to subsidize costs will be required, as well
as limits and requirements for sub-meter providers with respect to rates and administrative charges.

**Above-Guideline Increases**

Bill 235 includes a number of tenant protection measures which reflect measures previously recommended to the province by the City Government, and consistent with the August 13, 2009 Ontario Energy Board decision.

Bill 235 could go further in addressing tenant protection when there are applications for above guideline increases where energy efficiency measures are introduced pursuant to proposed sections 137(9) and 137(10). In particular, provisions in section 126 of the *Residential Tenancies Act* which permit rent increases in respect of capital expenditures, extra-ordinary operating costs and inflation (guideline increases) should also be considered as part of Bill 235 to ensure that tenants are protected from unfair rent increases while landlords are able to achieve sufficient rental income to afford capital improvements related to energy efficiency.

**Unit Improvements required before Sub-Metering may cause Rent Increases**

Bill 235 requires certain improvements prior to sub-metering (sections 137(9) and 137(10)). Section 126 of the RTA permits rents to be increased above the guideline to recover the costs associated with capital expenditures aimed at energy conservation. Tenants will almost certainly be subject to rent increases as a result of the improvements contemplated by Bill 235, and these rent increases are very likely to exceed any energy savings they may experience through sub-metering.

We recommend that Bill 235 include provisions to support grants and other incentive programs to help reduce the impact of required capital expenditures in advance of sub-metering as the value of grants and other incentives would be deducted from the rent increase that might otherwise be passed onto the tenant.
Alternately, Bill 235 could exempt such capital work from Above Guideline Increases.

**Building Improvements may cause Rent Increases and not Rent Reductions**

Proposed section 137(15) provides that above guideline increases will not be granted for capital expenditures that do not promote electricity conservation or efficiency when they reasonably could expect to do so. Therefore, rent increases may be permitted under s.126 of the RTA for such capital expenditures.

While tenants who pay for electricity separately from their rent may benefit directly from energy saving appliances installed by their landlord pursuant to sections 137(9) and (10), there are no provisions for tenants to benefit from other capital expenditure work done by their landlord that reduces operating costs such as for electricity.

Landlords will require a sufficient rental income to pay for capital improvements aimed at improving energy efficiency. The City of Toronto has been delivering programs to help building owners improve their buildings since 2007. Our experience is that the capital investment in energy efficiency measures in buildings is often financed by the resultant savings in annual utility costs.

Despite financing generally being based on operating cost savings alone, landlords are able to meet financing obligations in two ways:

- through rents and annual guideline increases (the RTA does not require that energy savings be passed on to tenants); and
- through above guideline rent increases.

Further, while operating costs are expected to decrease as a result of capital work aimed at energy efficiency and/or conservation, the annual "guideline" increases to tenant rents are not reduced when such capital work is undertaken – the same
percentage used across Ontario is applied to the rent without any offset of either the rent or the guideline to pass through energy savings to the sitting tenants.

Our concern is that, taken together, the RTA and Bill 235 may result in situations where:

- Tenants would experience above guideline rent increases related to the costs of capital work aimed at energy efficiency and/or conservation;
- There are no provisions requiring that rents be reduced where there are energy cost savings as a result of capital work funded by above guideline rent increases; and
- Future guideline increases would continue to compound annually on a base rent that does not reflect energy savings.

We recommend that provisions related to capital expenditure costs and energy costs in Bill 235 and the RTA be reviewed and amended to ensure that landlords are able to use operating cost savings to fund capital work aimed at energy efficiency and/or conservation, and that proposed section 137(15) be amended to state that no above guideline increases may be sought for such capital expenditures. Alternately, we recommend that provisions permitting above guideline rent increases to recover capital costs be retained, subject to provisions being added to the RTA requiring reductions in rents to reflect planned operating cost savings.

D. Enforcing Bill 235

Proposed section 137 sets out the activities that landlords must undertake prior to approval of sub-metering, including obtaining consent from tenants and furnishing prescribed information to tenants for review. Tenants may apply to the Landlord and Tenant Board (LTB) under proposed section 137(11) for an order where they believe that a landlord has breached their obligations.
The information to be supplied to the tenant will be prescribed and, as such, we cannot comment on the particulars. However, it is likely that the requirements will include an energy audit, as mandated by the Ontario Energy Board in its decision dated August 13, 2009. The documents disclosed to tenants pursuant to proposed section 137(4) may be complex and may require technical knowledge to adequately decipher the information. It may also be onerous, expensive and complicated for tenants to seek orders pursuant to proposed section 137(11). It creates an undue burden on tenants to be responsible for vetting technical information provided by landlords and also to seek LTB assistance where issues arise in respect of tenant consent. This is especially significant given that once a rental unit is sub-metered, Bill 235 does not require consent from future tenants.

To ensure that conservation measures are maximized and Bill 235 is implemented as planned by the Provincial government, all possible measures should be taken for appropriate Ministries with expertise to assess and approve the energy audits, capital expenditures and proposed rent reductions in advance of sub-metering, rather than leaving it to tenants individually to make applications to the LTB where they believe there may be a breach. Having this information reviewed by experts and approved by the LTB in advance of sub-metering would provide tenants with the best possible information to enable them to give an informed consent to sub-metering of their unit.

We recommend that Bill 235 require landlords to apply to the LTB or such other body as may be appropriate to request approval for sub-metering and for the proposed methodology for determining the rent reduction prior to their installation.

E. Transfer of Utilities in Residential Complexes with Six or Fewer Units

We have significant concerns with the inclusion of proposed section 138. We foresee significant issues in the apportionment, transparency, and supports needed to ensure that tenants can make informed decisions about the transfer of utilities. Given the
relatively small size of this portion of the rental market and implementation details related to ratio billing, we also question whether there would be significant energy savings resulting from the initiative itself.

We also note that implementation of this section would require a complex range of standards requirements and incentives in smaller rental buildings which cover everything from plumbing, heating and electricity. It is unclear the degree to which tenants will have control over reducing utility costs given that virtually all of the fixtures in the unit that impact on utility costs are under the sole control of the landlord. We also foresee substantial complexity in fairly allocating utility costs given the extreme variability in the physical layout and condition of this portion of the rental market.

We recommend that section 138 be omitted from Bill 235.

In the alternative, we recommend protections and measures consistent with those outlined above in reference to proposed section 137 be extended to the apportionment of utility costs in buildings with six or few rental units.

F. Conclusion

The City of Toronto is pleased that Ontario seeks a balance between energy conservation and tenant protection, two issues that are of significant concern to the City of Toronto. At present, we are concerned that Bill 235 does not include adequate measures to achieve the strategies it set out. With the adoption of the recommendations set out in this submission, we would welcome the adoption and implementation of Bill 235.
G. Recommendations

The City of Toronto recommends that:

1. Bill 235 include provisions for upgrading the entire building – both common areas and individual units - to achieve reasonable efficiency standards in advance of permitting sub-metering of individual units. The Bill should also include provisions for ongoing monitoring of the standards and upgrading, to ensure that conservation and efficiency are maximized.

2. Bill 235 include provisions for grants and other direct incentive programs to achieve energy conservation in multi-residential rental buildings including social and affordable housing.

3. Bill 235 include provisions for funding and delivery of programs to support tenant education on how to reduce energy use and conserve electricity.

4. Bill 235 include provisions to support grants and other incentive programs to help reduce the impact of required capital expenditures in advance of sub-metering as the value of grants and other incentives would be deducted from the rent increase that might otherwise be passed onto the tenant. Alternately, Bill 235 could exempt such capital work from Above Guideline Increases.

5. provisions related to capital expenditure costs and energy costs in Bill 235 and the RTA be reviewed and amended to ensure that landlords are able to use operating cost savings to fund capital work aimed at energy efficiency and/or conservation, and that proposed section 137(15) be amended to state that no above guideline increases may be sought for such capital expenditures. Alternately, we recommend that provisions permitting above guideline rent increases to recover capital costs be retained, subject to provisions being added to the RTA requiring reductions in rents to reflect planned operating cost savings.
6. Bill 235 require landlords to apply to the LTB or such other body as may be appropriate to request approval for sub-metering and for the proposed methodology for determining the rent reduction prior to their installation.

7. section 138 be omitted from Bill 235. In the alternative, we recommend that the same protections and measures outlined above in reference to proposed section 137 be extended to the apportionment of utility costs in buildings with six or few rental units.

H. Appendices


