Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014 .... **Agenda Item # **5**

Company: Greater Minnesota Gas, Inc.

Docket No. G-022/CI-08-1175

In the Matter of Greater Minnesota Gas, Inc.'s Failure to File An Affordability Program Under Minn. Stat. §216B.16, Subd. 15

Issue: Greater Minnesota Gas, Inc.'s evaluation of its Gas Affordability Program and proposal to discontinue its Gas Affordability Program

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Relevant Documents

Greater Minnesota Gas - Evaluation of Gas Affordability Program ....July 2, 2014
Department of Commerce - Comments...October 9, 2014
OAG-AUD - Letter ....October 21, 2014
Greater Minnesota Gas - Reply Comments ....October XX, 2014 (tbd)

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October 22, 2014

Statement of the Issue

Should the Commission approve Greater Minnesota Gas, Inc.'s request to discontinue its low income Gas Affordability Program beginning with the 2015 Program year?

Background

July 2, 2014: Greater Minnesota Gas, Inc. (GMG) submitted its periodic evaluation of its Gas Affordability Program (GAP). The Company has requested to discontinue its Program due to lack of participation by GMG's customers.

October 9, 2014: The Department submitted its comments on GMG's Program evaluation and recommended the Commission deny its request to discontinue the Program.

Minn. Stat. § 216B.16, Subd. 15 - Low-Income Affordability Programs

The low-income affordability program statute required all gas utilities to file proposals for low-income affordability programs with the Commission by September 1, 2007. All of the investor-owned, Commission rate regulated natural gas utilities currently offer an affordability program for income-qualified customers. Certain performance, evaluation requirements and cost recovery standards for these programs are identified in the statute. (Please see Attachment A for a copy of the statute.)

GMG's Gas Affordability Program (GAP)

GMG's GAP was first approved by the Commission in its January 26, 2009 Order in this Docket. GAP is available on a first-come, first served basis to GMG's Customers who qualified for LIHEAP in the previous year. The Program is capped at three percent of the Company's residential customers, although the Company has never come close to meeting or exceeding the cap. The Program year coincides with the calendar year.

GMG notifies all LIHEAP Customers of their eligibility for the GAP and Customers are given 30 days to complete and return an application for the Program. Once the participant is approved, and agrees to a levelized payment plan, the Company agrees to maintain service and suspend collection efforts. A customer may remain on the Program as long as the participant makes timely payments, remains a GMG Customer and is income qualified. Participants who fail to make two consecutive monthly payments are removed from the Program and subject to collection efforts by the Company.

As required by statute, GMG's GAP includes both an affordability credit and an arrearage forgiveness component. The affordability credit is a waiver of the monthly facility charge applied to the Customer's account at the end of the quarter if they have complied with the Program requirements. The waiver of the monthly facility charge amounts to $25.50 quarterly or $102 annually. Participants who make twelve consecutive payments on a timely basis receive a one-time arrearage forgiveness credit of $102 which is applied to their account at the end of the Program year.

GMG has approximately 4,800 retail Customers. The number of GMG Customers who received a LIHEAP grant in 2013 was 65. Of these Customers, fourteen enrolled in the Program. Twelve of the Customers were terminated from the Program for failure to comply with the Program requirements. Two of the Customers successfully completed the Program and received both the affordability credits and the one time arrearage forgiveness credit. The Company issued credits totaling $637.50 in 2013, with $433.50 attributable to the affordability component and $204.00 attributable to the arrearage forgiveness component.

GMG was ordered to establish a deferred account for all Program costs for review and recovery in GMG's next rate case. The Company did not provide the balance of the deferred account.

Party Positions

Greater Minnesota Gas
The Company administers its Program in-house and believes that the oversight, reporting and administration of the GAP is burdensome and not cost effective either from the Company's perspective or a Ratepayer perspective. It is the Ratepayers who are financing the administrative costs of the Program. The Company estimated the total administrative costs associated with the Program to be $2,800, with approximately $800 in administrative time and $2,000 to regulatory reporting and development. It should be noted that the Commission modified the Company's reporting requirements based on the small size of the Company's Program as compared to the Programs of the other Minnesota utilities who offer GAPs.

Pursuant to the low-income affordability program statute, Minn. Stat. § 216B.16, subd. 15(b), a GAP is intended to achieve five statutory goals:

- To lower the percentage of income that participating households devote to energy bills;
- To increase the payments of participating customers over time by increasing the frequency of their payments;
- To decrease of eliminate the arrears balances of participating customers;
- To lower the utility's cost associated with collection activities; and,
- To coordinate the program with other available low-income payment assistance and conservation resources.

1.) Any lowered percentage of household income devoted to energy bills in nominal.

GMG noted that it does not have access to its Customers' household income information but does offer the following analysis. If household income remains constant over time, than receipt of GAP credits would automatically reduce the percentage of income devoted to energy bills for GAP Customers. Given the extremely low enrollment and the low number of participants who successfully complete the Program, any implied reduction to the percent of income devoted to energy bills would be marginal at best; and arguably, any implied reduction would be statistically insignificant.

2.) There was no demonstrable increase in Customer payment frequency.

According to the Company, the existence of a GAP does not result in increased customer payment frequency. Twelve of the fourteen Customers enrolled in the 2013 Program year were removed from the Program for failure to make timely payments. Two of the Customers successfully made timely payments all year.

3.) There was no significant reduction in decreasing or eliminating participating Customers arrears.

GMG stated that only two of its Customers received the arrearage credit and concluded there is no discernable, statistically significant reduction in participating Customer arrears.

4.) GMG did not experience a decrease in collection costs.

The Company stated that its collection costs were only reduced by the two Customers who successfully completed the Program and did not measurably decrease its overall collection costs.

5.) Program coordination with other payment assistance and conservation resources.

The Company said that the existence of the GAP did not impact the manner in which GMG coordinates with other payment assistance programs and conservation resources. The Company is committed to continue to work with existing and new resources for the benefit of its Customers.

Department of Commerce

The Department expressed concern with the lack of effectiveness of GMG's GAP and concluded that certain changes to the structure of the Program may improve its success. The Department recommended that GMG be directed to issue the affordability and arrearage credits to GAP Customers' accounts on a monthly basis as opposed to the current practice of crediting the Customer accounts on a quarterly basis. This may make it easier for the Customers to meet the monthly payment obligation.

The Department stated that it recognizes the fact that GMG is a small utility with limited staff and resources and recommended the Commission require the Company to provide information on the cost of using a third party administrator in its next annual GAP report. Using a third party administrator may have benefits such as better coordination with other programs and conservation services.

Office of Attorney General-Antitrust and Utilities Division
The OAG also expressed concern about GMG's proposal to discontinue its program and believes improving the program would be a better alternative. OAG noted that GMG did not submit a timely response to the Department's request for information or to the Department's comments. OAG plans to appear the Commission's October 30th meeting and provide additional comments at that time.

Staff Analysis

Staff believes that the Company's Program marginally meets the requirements of the statute. With respect to the Company's comments about the program not having an effect on customer payment frequency or participating customers' arrears balances, staff notes that the Company, in its evaluation report, did not provide a comparison between its LIHEAP customers who participate in GAP and those that do not. (The Department has asked GMG for some of this information but the information had not been received by the time the Department submitted its comments.) The Company reports having only 65 customers that received LIHEAP grants, 14 of these customers enrolled in GAP, and only two made twelve consecutive payments and qualified for the "arrearage reduction" benefit. This is a relatively small number of customers. Staff does not know if 1.35% (i.e. 65 LIHEAP customer/approximately 4,800 total customers) is typical of the percentage of customers other utilities have that receive LIHEAP grants or if it is a higher or lower percentage than "normal".

Staff also notes that the "arrearage reduction" benefit that GMG's GAP customers receive is designed to be easy for GMG to administer and is not related to the amount of the customer's arrears. By definition, it is unlikely to have as much of an impact on reducing arrears as the arrearage component of the other utilities GAP programs which are designed to reduce arrears.

In any event, staff agrees with the Department's assessment and concern over the lack of effectiveness of GMG's Program.

The Company stated it believes the Program should be discontinued because the oversight, reporting and administration of the GAP is burdensome and not cost effective from either the Company perspective or a Rate payer perspective. The Company appears to be most concerned that the Program consumes approximately $800 worth of administrative time and approximately $2,000 worth of regulatory reporting and development time each year. However, the low-income affordability program statute, in Minn. Stat. § 216B.16, subd. 15(d) limits recovery of administrative costs to five percent of total program costs and program evaluation costs in excess of two percent of total program costs. The Commission may want to ask GMG to provide a detailed summary of its GAP tracker account since the inception of its program.

Staff notes that none of the financial analyses of these programs provided so far has indicated that any of these affordability programs provide a net benefit to customers or that there are net benefits that should be captured and returned to ratepayers through a tracker account or through deferred accounting. The discussion about the financial analysis and cost effectiveness of these programs is usually in the context of whether the social costs and benefits of the program should be recognized and included in the evaluation of these programs.

Arguably, this program may not be the most effective or efficient approach to making utility service affordable for GMG's low-income consumers. Nevertheless, there are only a limited number of ratemaking tools available to the Commission that can be used to help make utility service more affordable for low-income consumers in a way that provides an incentive for regular bill payments. Because the legislature has required utilities to "file" affordability programs, Staff recommends the Commission require GMG to continue this pilot for at least another two, three or four years.

In its 2012 Program Evaluation, GMG noted that it administers the Program internally. GMG stated it was meeting with the Neighborhood Energy Connection (NEC) to discuss the possibility of NEC administering the Program on behalf of GMG. GMG's Program reporting requirements were suspended for the 2013 Program year. Staff cannot find any discussion in the record of the outcome of these meetings, however, it is staff's understanding that GMG has not been able to find any organization that is willing to jointly administer its GAP and low-income CIP programs. The Commission may want to ask the Company for an update as to the results of these negotiations and if the Company has met with any other prospective third party administrators and the results of those negotiations.

In this filing the Company stated that if the Commission decided to discontinue the Program starting with the 2015 Program year, it would not affect the Company's efforts coordinating with other payment assistance programs and conservation resources. The Company did not provide an explanation of what programs they coordinate with, what outreach efforts have been undertaken, if these efforts are ongoing, etc… The Commission may want to ask the Company exactly what efforts it has undertaken to coordinate with other payment assistance programs and conservation resources and what was the outcome of these efforts.

Staff agrees with the Department's recommendation to apply the affordability and arrearage forgiveness credit on a monthly basis, rather than a quarterly basis. Realizing the benefit monthly may provide an additional incentive for the Customer to remain in compliance with the GAP customer agreement. The Commission may also want to consider whether the program would be more effective helping low-income customers if the program rules were relaxed and customers were not automatically removed from the program after missing two consecutive monthly bill payments.

Two additional questions the Commission may want to ask the Company per its annual Program evaluation would be about the application process itself. For example, the Company stated that it notifies all Customers who received LIHEAP during the most recent year of their eligibility for the GAP. Customers are then given 30 days in which to return a completed application. Staff is unsure if this means there is only a 30 day window in which the Customer must submit its application, or may the Customer submit an application at any time during the Program year.

The second question the Commission may want to ask is if an application for the GAP is necessary. Given the fact that Customer's eligible for LIHEAP are determined eligible for GAP based on their LIHEAP eligibility, automatic enrollment in the GAP would certainly increase the number of Customer's enrolled in the Program. This would not affect the number of Customer's who actually remain in compliance with the Program terms and ability to remain on the Program.

Decision Alternatives

1.) Grant GMG's request to terminate its GAP beginning with the 2015 Program year, or

2.) Require the Company to continue its GAP for two, three or four years with no modifications to the Program, or

3.) Require the Company to continue the Program for two, three or four years with one or more of the following modifications to the Program.

   a. Direct GMG to provide its affordability and arrearage credits on a monthly basis,

   b. Direct GMG to provide information on the potential costs and benefits of using a third-party administrator for its GAP program in its next annual GAP report, and

   c. Direct GMG to provide an accounting of the balance in its GAP tracker/deferral account in its next annual GAP report.

4.) If the Commission adopts alternative two or three and GMG is required to continue its GAP program as a pilot for an additional time period (for example, two, three or four years), then the Commission may also want to

   a. Require GMG to continue to file annual GAP compliance reports by March 31st of each year, and

   b. Require GMG to file an evaluation report by June 1st in the year the pilot program is due to expire, for example June 1, 2006; June 1, 2017 or June 1, 2018.

5.) Require GMG to submit revised tariff sheets that reflect the Commission's decision in this docket within ten days of the Commission issuing its Order.

Staff Recommendation

Staff recommends decision alternatives 3, 4 and 5. If the Commission requires GMG to continue offering this program, it will also need to decide how long the program should continue before its next evaluation. The Commission may also want to include additional modifications to GMG's program that are not listed under alternative 3 if it believes they would make GMG's program more effective.

Attachment A

2011, Regular Session, Ch. 97 – S.F. No. 1197

Sec. 11. Minnesota Statutes 2010, section 216B.16, subdivision 15, is amended to read:

Subd. 15. Low-income affordability programs.

(a) The commission must consider ability to pay as a factor in setting utility rates and may establish affordability programs for low-income residential ratepayers in order to ensure affordable, reliable, and continuous service to low-income utility customers. A public utility serving low-income residential ratepayers who use natural gas for heating must file an affordability program with the commission. For purposes of this subdivision, "low-income residential ratepayers" means ratepayers who receive energy assistance from the low-income home energy assistance program (LIHEAP).

(b) Any affordability program the commission orders a utility to implement must:

(1) lower the percentage of income that participating low-income households devote to energy bills;
(2) increase participating customer payments over time by increasing the frequency of payments;
(3) decrease or eliminate participating customer arrears;
(4) lower the utility costs associated with customer account collection activities; and
(5) coordinate the program with other available low-income bill payment assistance and conservation resources.

(c) In ordering affordability programs, the commission may require public utilities to file program evaluations that measure the effect of the affordability program on:

(1) the percentage of income that participating households devote to energy bills;
(2) service disconnections; and
(3) frequency of customer payments, utility collection costs, arrearages, and bad debt.

(d) The commission must issue orders necessary to implement, administer, and evaluate affordability programs, and to allow a utility to recover program costs, including administrative costs, on a timely basis. The commission may not allow a utility to recover administrative costs, excluding start-up costs, in excess of five percent of total program costs, or program evaluation costs in excess of two percent of total program costs. The commission must permit deferred accounting, with carrying costs, for recovery of program costs incurred during the period between general rate cases.

(e) Public utilities may use information collected or created for the purpose of administering energy assistance to administer affordability programs.

EFFECTIVE DATE. This section is effective the day following final enactment.