MINNESOTA DEPARTMENT OF COMMERCE

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June 29, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Sue 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G001/M-15-540

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Interstate Power and Light Company's (IPL) Second Evaluation of its Gas Affordability Program (GAP).

The evaluation was filed on June 1, 2015 by:

Robyn Woeste
Regulatory Relations Manager
200 First Street SE
PO Box 351
Cedar Rapids, Iowa 52406-0351

The Department concludes that IPL's GAP satisfied the requirements of Minn. Stat. § 216B.16, subd. 15 part (b) for the period from 2011 through 2014 and recommends that the Minnesota Public Utilities Commission (Commission) approve IPL's 2015 GAP evaluation report. The Department is available to answer any questions the Commission may have in the matter.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

EA/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G001/M-15-540

I. INTRODUCTION

On June 1, 2015, Interstate Power and Light Company (Interstate, IPL, or the Company) submitted its *Second GAP* [GAP Affordability Program or Program] *Pilot Evaluation Report* (*Report*) in the present docket. The *Report* includes the following sections:

- background information,
- a general description of the GAP,
- information on GAP participation and expenses,
- an evaluation of the GAP from statutory and cost effectiveness perspectives, and
- a discussion of other relevant issues.

IPL noted in the *Report* that its Minnesota natural gas customers were transitioned to Minnesota Energy Resources Corporation's (MERC's) rates and tariffs effective May 1, 2015. This transition also included the customers that had been provided service under IPL's GAP. Those customers are now taking service under MERC's GAP. The Company also notes that since IPL's GAP program no longer exists, it is of the opinion that no additional Minnesota Public Utilities Commission (Commission) action is required.

II. THE DEPARTMENT'S ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) discusses below IPL's GAP participation and expenses and the Company's GAP evaluation for the period from 2011 through 2014. The Department will provide a comparison of IPL and MERC's GAP offering in its review of MERC's GAP report in Docket No. G011/M-15-539 which was filed concurrently with IPL's.

A. GENERAL DESCRIPTION OF IPL'S GAP

In its *Report*, Interstate listed the following general characteristics of the Company's GAP:

- qualified customers agreed to be placed on a levelized payment plan and a payment schedule;
- customers were automatically removed from the GAP after a non-payment period of 60 days;
- the GAP had an affordability component that consisted of bill credits determined as one-twelfth of the difference between the Company's estimate of the customer's annual natural gas bill and six percent of the customer's household income as provided by the qualified customer;
- the GAP had an arrearage forgiveness (arrearage) component that applied a monthly matching credit to the customer's balance after payment was received, and the application of this monthly credit retired pre-GAP arrears over a period of up to 24 months; and
- the GAP was administered by Interstate, with additional assistance by SEMCAC, which is the community action agency that services IPL's service area for the federal Low Income Heating Assistance program (LIHEAP).

The Department notes that IPL maintained a tracker account to record expenses and revenues associated with its GAP until that balance was transferred to MERC's GAP tracker on April 30, 2015.

B. GAP PARTICIPATION AND EXPENSES

In its *Report*, IPL provided GAP participation data, which is provided below in Table 1.

Table 1 – GAP Program Participation 2011 -2014

Participants	2011	2012	2013	2014	Average
Active at Year End	108	112	92	86	100
Dropped from Program	39	46	24	21	33
Total	147	158	116	107	133
Drop Rate	27%	29%	21%	20%	24%

According to the data in Table 1, participation in Interstate's GAP has declined over the time period under review. There was also a decline in the number of customers leaving the Program on an annual basis.

C. GAP EVALUATION

The Department uses certain statutory criteria, the Company's GAP tariff, and the financial evaluation that IPL had included in its previously-effective Minnesota tariff in its analysis. The Company followed an identical protocol in its evaluation.

1. Statutory Criteria

Minnesota law provides the following criteria for evaluating gas affordability programs approved by the Commission:

> (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.[1]

In addition to the five statutory criteria discussed above, Minnesota law states the following with respect to gas affordability programs:

> (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.[2]

The list above is nearly identical with the list of five statutory criteria above, with the inclusion of service disconnections in Part (c) immediately above and the requirement in Part (b) that the utility must coordinate with other low-income and conservation resources.

[1] Minn. Stat. §216B.16, subd. 15, part (b).
[2] Minn. Stat. §216B.16, subd. 15, part (c).

IPL stated that it reported on certain of these criteria as part of its annual compliance report and discussed them as part of the overall evaluation as well.

The Department notes that the statute does not limit the evaluation of GAP programs; the Commission can and should evaluate GAP programs based at least on the items listed in statute, but may expand that scope if needed to evaluate the public interest. The Department summarizes below IPL's responses to, as well as the DOC's conclusions for, each of those criteria.

a. Lower the Percentage of Income that Participating Low-Income Households Devote to Energy Bills

i. IPL's Response

Interstate stated that its GAP reduces the participants' gas bills from what the bills would have been absent the existence of the GAP. Specifically, the Company stated that this reduction amounts to the total affordability and arrearage credits provided to participants. IPL asserted that, assuming these other variables remained constant, the GAP satisfied this statutory requirement.

ii. The Department's Conclusion

Given the program's affordability and arrearage credits, the Department concludes that, for this period, IPL's GAP satisfied this statutory requirement.

b. Increase Participating Customer Payments over Time by Increasing the Frequency of Payments

i. IPL's Response

Interstate stated that, the Company randomly sampled GAP participants to determine if there was any effect of the Program on the timing of utility bill payments. Based on this data, IPL stated that the GAP appears to have increased the frequency of customer payments, as indicated in Table 2.

Table 2 – Comparison of GAP and LIHEAP Payments 2011-2014 (11% Random Sample)

Customer Group	2011	2012	2013	2014
GAP Participants Percent Late	7%	32%	29%	3%
LIHEAP Percent Late	44%	76%	35%	26%

IPL concluded that its GAP has satisfied this statutory requirement.

ii. The Department's Conclusion

The Department agrees with the Company that, for 2011 through 2014, IPL's GAP appears to have been a contributing factor in the increased frequency of customer payments for GAP participants relative to LIHEAP participants. The Department concludes that IPL has shown that its GAP satisfied the statutory criteria of increasing participating customer payments over time by increasing the frequency of payments for the time period in question.

c. Decrease or Eliminate Participating Customer Arrears

i. IPL's Response

IPL included comparisons of random samples of the average level of arrears at year-end 2011 and 2014 to the level of arrears at the beginning of 2011 and 2014 for three groups of residential customers, which are provided in Table 3 below.

Table 3 – GAP Change in Average Arrears by Customer Group (Random Sample)

Customer Group	January 2011	December 2011	Percent Change	December 2014	January 2014	Percentage Change
GAP Participants	$60	$8	-86%	$59	$42	-29%
LIHEAP – Non-GAP Participants	$116	$221	89%	$46	$56	22%
Residential Customers	$161	$181	13%	$200	$167	-17%

Based on the information provided in Table 3, Interstate stated that the GAP appears to have contributed to a decrease in arrears for participants relative to LIHEAP participants and residential customers. IPL concluded that the GAP has satisfied this statutory requirement.

ii. The Department's Conclusion

The Department concludes that Interstate has shown that the GAP appears to have been a contributing factor in the decreased arrears for GAP participants at year-end 2011 compared to beginning-year 2011 and at year-end 2014 to beginning-year 2014. Thus, IPL's GAP has satisfied the statutory criteria that the Program decrease or eliminate customer arrears.

d. Lower the Utility Costs Associated with Customer Account Collection Activities

i. IPL's Response

IPL stated that the costs associated with collection activities, including issuing disconnect notices and performing disconnects and subsequent reconnects, have been minimal. Table 4 below provides the Company's disconnection rate data by GAP customer and typical residential customer for 2011 through 2014.

Table 4 – Comparison of Disconnections Rates between GAP Participants and Residential Customers 2011 - 2014

Customer Group	2011	2012	2013	2014
GAP Customers Disconnected – (#)	11	0	0	0
GAP Customers Disconnected – (%)	6.0%	0.0%	0.0%	0.0%
Residential Customers Disconnected – (#)	480	477	261	525
Residential Customers Disconnected – (%)	1.0%	1.0%	0.06%	1.2%

IPL essentially doesn't track disconnections for GAP participants. GAP participants are mailed warning letters regarding the need to make a payment by a date certain in order not to be removed from the Program. If the GAP participant fails to make timely payment, they are removed from the program before they are disconnected.

Given all the relevant factors, IPL concluded its Program has satisfied this statutory requirement.

ii. The Department's Conclusion

The Department concludes that IPL's internal process as described in the Report doesn't provide the information necessary to determine if the GAP contributed to a certain level of avoided costs associated with disconnection notices since the Company apparently failed to track this information. Conceptually, the Department agrees with the Company that, given the small number of disconnected GAP customers, there would be minimal avoided costs associated with disconnects and reconnects for these customers. The Department is sufficiently confident in IPL's conceptual characterization to conclude that the Company's GAP has fulfilled the statutory reporting requirement of Minn. Stat. §216B.16, subd. 15, part (a)(4). The Department will address this issue for MERC, the utility that purchased IPL's Minnesota gas operations, in its GAP evaluation report.

e. Coordinate the Program with Other Available Low-income Bill Payment Assistance and Conservation Resources

i. IPL's Response

The Company stated that, in addition to mailing bill inserts and IPL calling customers about enrolling in GAP, IPL partnered with the local community action agency in an effort to advertise the existence of the program.

ii. The Department's Conclusion

The Department concludes that IPL has shown that, during the period covered in the *Report,* the Company coordinated the GAP with other low-income bill payment assistance and conservation resources, as required by Minn. Stat. §216B.16, subd. 15, part (b)(5).

2. Cost Benefit Analysis

i. IPL's Response

The Company's approved Minnesota tariff stated, in part, with respect to the GAP:

> The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the program. Any net benefit after the initial four-year term of the Program will be added to the Tracker for refund to residential ratepayers.[3]

To comply with this now-lapsed tariff provision, IPL conducted a cost-effectiveness analysis of the GAP from the ratepayer perspective. Table 5 summarizes the Company's analysis.

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[3] See Original Volume No. 6, Substitute Original Sheet No. 17, of the Company's tariff.

Table 5 – GAP Cost Benefit Analysis for 2011 through 2014

Description	Total Benefits or Costs	Average Annual Benefit or Cost
Benefits		
Estimated Change in Arrearage Expense	$20,696	$5,174
Lower Collections Expense	$0	$0
Sub-total Benefits	$20,696	$5,174
Costs		
Program and Administrative Costs	$180,220	$45,055
Sub-total Costs	$180,220	$45,055
Sub-total Benefits/Sub-total Costs	0.11	0.11

As indicated in Table 5, Interstate's evaluation shows that the GAP's costs were significantly higher than IPL's estimate of its benefits. Thus, the GAP was not cost effective from the ratepayer perspective.

ii. The Department's Conclusion

The Department broadly agrees with the Company's cost/benefit analysis of its GAP. The Department also notes that IPL's internal process did not allow it to determine if the GAP's existence resulted in collections expenses being lower than they otherwise would have been.

3. IPL's Inability to spend annual entire program amount

The Company noted in its report that it has spent an average of 90 percent of its annual GAP budget for 2011 through 2014. IPL notes that the administrative lag associated with the replacement of GAP participants that leave the program and difficulties with administering the arrearage forgiveness component of the program resulted in IPL not spending all of the available funds.

ii. The Department's Conclusion

The Department appreciates the information IPL provided in this section and will work with MERC to alleviate those issues to the extent possible in MERC's GAP on a going forward basis.

E. THE DEPARTMENT'S CONCLUSIONS AND RECOMMENDATION

The Department concludes:

- IPL has shown that, for January 2011 through December 2014, the GAP was a contributing factor in reducing the percentage of income devoted to energy bills for each participating household, as required by Minn. Stat. §216B.16, subd. 15, part (b)(1).

- IPL has shown that, for January 2011 through December 2014, the GAP has been a contributing factor in the increased frequency of customer payments for GAP participants. For this period, IPL's GAP satisfied the criteria of increasing participation customer payments over time by increasing the frequency of payments, as required by Minn. Stat. §216B.16, subd. 15, part (b)(2).

- IPL has shown that the GAP has been a contributing factor in the decrease in arrears for GAP participants at year-end 2011 compared to beginning-year 2011 and at year-end 2014 compared to beginning-year 2014. For 2011 through 2014, IPL's GAP has satisfied the criteria that the Program decrease or eliminate customer arrears, as required by Minn. Stat. §216B.16, subd. 15, part (b)(3).

- IPL has shown that the GAP was a contributing factor in a certain level of avoided costs associated with disconnection notices since January 2011. With respect to disconnection rates, given the small number of disconnected GAP customers identified by the Company, there would be minimal avoid costs associated with disconnects and reconnects for these customers. IPL's GAP has, on balance, satisfied the requirement in Minn. Stat. §216B.16, subd. 15, part (b)(4).

- IPL has shown that the Company coordinated the GAP with other low-income bill payment assistance and conservation resources, as required by Minn. Stat. §216B.16, subd. 15, part (b)(5).

The Department recommends that the Commission approve IPL's 2015 GAP evaluation report. It also notes that we will discuss the program expense issue and the protocol for calculating avoided collections expenses with MERC relative to IPL's former natural gas customers in MERC's current GAP report.

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