MINNESOTA DEPARTMENT OF COMMERCE

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September 9, 2015

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-15-539

Dear Mr. Wolf:

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

Minnesota Energy Resources Corporation's (MERC) 2015 Evaluation of its Gas Affordability Program (GAP).

The evaluation was filed on June 1, 2015 by:

Jim Phillippo
Program Manger Energy Efficiency/Public Benefits
Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, Minnesota 55402-1498

As discussed in greater detail in the attached *Response Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** MERC's proposals for the GAP. The Department is available to answer any questions the Commission may have in this matter.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/M-15-539

I. INTRODUCTION

On June 1, 2015, Minnesota Energy Resources Corporation (MERC or the Company) submitted its 2015 *GAP* [Gas Affordability Program or Program] *Evaluation Report* (*Report*) consistent with the Minnesota Public Utilities Commission's (Commission) requirement at Ordering Paragraph 2 at page 3 in the Commission's *Order Accepting Report, Extending Program, and Increasing Gas Affordability Surcharge* dated December 29, 2011 in Docket No. G007,011/M-07-1131. 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 tracker account balance and the proposed GAP surcharge for 2016;
- an evaluation of the program in light of its statutory requirements;
- an evaluation of other issues and challenges; and'
- the Company's proposals for the GAP on a going-forward basis.

On July 28, 2015 the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) filed its *Comments* on MERC's *Report*. In its *Comments*, the Department requested that MERC address the following issues in its *Reply Comments*:

- The potential reasons for relatively stable payment frequency among customers on the Low Income Home Energy Assistance Program (LIHEAP) compared with declining payment frequency of GAP customers;

- Any potential GAP design changes that could improve payment frequency.

- The magnitude of the "foregone LIHEAP emergency benefits" the Company identified in the *Report* and the drivers of the increase in the number of GAP participants receiving Low Income Home Energy Assistance Program (LIHEAP) grants; and

- An updated estimate of its 2016 year-end tracker balance assuming the Commission were to approve a GAP surcharge set at $0.00 per therm effective October 1, 2015.

The Department also made several recommendations in those same *Comments* which are included the *Conclusions and Recommendations* section of this document.

MERC filed its *Reply Comments* on August 10, 2015. The Company addressed the four issues the Department had identified in its *Comments*. Regarding the question as to why GAP customers' payment frequency was declining, while non-GAP LIHEAP customers' payment frequency was not declining, the Company explained that the increase in enrollments in 2014 made it difficult to identify the potential drivers for this change. As for any potential design changes to its GAP, the Company discussed the potential for tightening program eligibility by removing GAP customers from the Program after they had missed one payment instead of the currently approved two payments. However, MERC concluded that a program change of that nature would undermine its efforts at customer retention.

The Company had very little to say regarding "foregone LIHEAP emergency benefits." MERC stated: "the Company cannot make a fair and accurate analysis of the overall reduction of emergency benefits to GAP customers because there are too many variables impacting a customer's ability to qualify for emergency benefits."[1] MERC also provided information regarding the increase in the number of GAP participants receiving LIHEAP grants. The Company noted that the severe winter of 2013-2014 had increased the overall number of GAP and LIHEAP participants, as well as the amount of LIHEAP grants for that heating season.

On August 17, 2015, MERC filed *Supplemental Reply Comments* which addressed the Department's request that the Company provide an updated 2016 year-end tracker balance assuming the GAP surcharge was lowered to $0.00 per therm effective October 1, 2015. The Company explained that, "MERC submits these additional comments to correct its GAP tracker and to state its agreement to the Department's recommendation to set MERC's GAP surcharge at $0.000 effective the month following the Commission Order in this proceeding."

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[1] Reply Comments at page 2.

II. THE DEPARTMENT'S ANALYSIS

The Department discusses the topics covered in MERC's *Reply Comments* and *Supplemental Reply Comments* below.

A. MERC'S REPLY COMMENTS

1. Payment Frequency

MERC's explanation that the large increase in the number of enrollments in 2014 made it difficult to identify the reasons for the decrease in GAP participant payment frequency did not provide a basis for reconciling the information provided in its Report and the statutory criterion included in Minn Stat. §216B.15 subd. 15 (b) (2). That criterion for evaluating gas affordability programs approved by the Commission states that GAP programs should: "increase participating customer payments over time by increasing the frequency of payments."

That said, the Department revisited the information that MERC provided in its 2011 and 2015 GAP Evaluation Reports[2]. The Department then developed a simple average for the six-year period from 2009 through 2014 for the number of payments made by: 1) all GAP participants; 2) new GAP participants and 3) non-GAP LIHEAP participants. The Department then compared those averages to the original number of payments for the Program's initial year, 2008. The results are included in Table 1.

Table 1 - Comparison of 2008 Average Number of Payments for GAP and LIHEAP Participants and Average of 2009 through 2014 Average Number of Payments for Those Same Customer Groups

Description	2008 Avg. # of Pmts.	2009 to 2014 Avg. # of Pmts.
All GAP Participants	9	9.5
New GAP Participants	7	8.33
LIHEAP Participants	10	9.33

The information in Table 1 suggests that MERC's GAP has met the aforementioned statutory criterion in that the number of payments per year from both new and all GAP customer groups has increased on average since the Program's inception in 2008. Given this information, the Department concludes that MERC's GAP satisfies this statutory requirement.

[2] The Commission has required MERC to file more extensive evaluation reports every four years in addition to the Commission-required annual reports.

As to the possibility of changing the Program's design to improve the average number of customer payments, it appears that this is no longer an issue given the information included in Table 1.

2. Foregone LIHEAP Emergency Benefits

MERC stated in its *Report* that LIHEAP emergency energy assistance benefits are impacted by GAP benefits, but indicated that it could not provide an analysis due to the number of variables involved. The Department asked the Company for a discussion and estimate of the general magnitude of those potentially lost benefits. In its *Supplemental Reply Comments*, MERC noted that "GAP provides protection against any collection activity to allow households to avoid crisis scenarios." Further, the Company listed variables, such as the amount of available funding and the number of customers applying for assistance, that make it impossible for MERC to provide an accurate analysis. The Department agrees that the interplay between LIHEAP and utility GAPs is somewhat complex, and will continue to study this issue going forward to identify any potential program design recommendations that may enhance the effectiveness of utility GAPs.

B. MERC's SUPPLEMENTAL REPLY COMMENTS

The Company proposed an alternative methodology for calculating its GAP tracker account in its *Supplemental Reply Comments*. MERC explained:

> On December 29, 2011 the Commission issued an Order Accepting Report, Extending Program, and increasing Gas Affordability Surcharge in Docket No. G-007, 011/M-07-1131. Order Point 8 of that Order authorized MERC to recover the projected tracker balance as of December 31, 2011, amortized over a four-year period, plus the $1 million proposed annual budget through a revised per therm surcharge. The Commission also authorized "a carrying charge on the consolidated gas affordability program tracker effective January 1, 2012, at MERC's authorized rate of return. MERC shall update the rate of return applied to this tracker account at the end of its pending rate case in Docket No. G-007, 011/GR-10-977."
>
> Based on the language of the Commission's December 29, 2011 Order, MERC established the under-collection as a regulatory asset to be amortized over four years and has applied carrying charges to that balance in the tracker. MERC did not include the regulatory asset in rate base. **MERC believes the intent of the Commission's Order, however, was**

> **that MERC recover the under-collection through the tracker based on a surcharge calculated to allow for the collection over four years, applying carrying charges to the entire tracker balance beginning in 2012. MERC has revised its tracker account back to 2012 to correct the carrying charge calculation.** This correction results in an additional benefit to ratepayers because the total tracker balance has been positive (over-collected) since 2013.[3] [Emphasis added.]

In other words, MERC proposed to correct its methodology regarding the treatment of the regulatory asset and the effect it has on the GAP tracker balance. Under its original methodology, MERC amortized the regulatory asset (under-collection) into the tracker balance over a four-year period; the remaining unamortized regulatory asset (2012 annual budget) was not included in the tracker balance. Under its updated methodology, MERC proposed to include the entire regulatory asset in the tracker balance beginning in 2012, thereby applying carrying charges to the entire balance beginning in 2012. The Department developed the information in Table 2 below in an attempt to quantify the differences in the existing (Existing) and proposed (Proposed) methodologies.

Table 2 – Comparison of 2011 through 2016 GAP Year-End Tracker Balances Assuming Regulatory Asset (Existing) and Non-Regulatory Asset (Proposed) Methodologies

Year	Existing	Proposed	Difference
2011	($690,440)	($690,440)	$0
2012	$80,499	($439,564)	($520,062)
2013	$540,965	$203,672	($337,293)
2014	$1,106,456	$1,003,590	($102,866)
2015*	$796,997	$1,109,903	$312,906
2016*	$176,269	$495,696	$319,426

*Forecasted

Since positive numbers in the Existing and Proposed columns in Table 2 represent over-recoveries in the GAP tracker balance, and by extension, potentially lower rates for ratepayers, the results in Table 2 are consistent with MERC's statement in its *Supplemental Reply Comments* that using the proposed method would benefit ratepayers. The 2015 and 2016 year-end tracker balances calculated using the proposed methodology have larger over-recovered balances, $312,906 and $319,426 respectively, when compared to the same year-end balances calculated using the existing methodology.

[3] *Supplemental Reply Comments* at page 2.

The Department appreciates MERC's efforts to correct the Company's methodology for calculating its GAP tracker balance. The concept of creating a regulatory asset for a tracker is counter-intuitive. Trackers exist so that the Company and interested parties can easily identify (track) the outstanding balance associated with the activity. Consequently, the Department supports MERC's efforts to correct its methodology for calculating its 2012 through 2015 tracker balance. The Department recommends that the Commission approve MERC's proposal to recalculate its GAP tracker balance using the proposed methodology effective January 1, 2012.

III. THE DEPARTMENT'S CONCLUSIONS AND RECOMMENDATIONS

The Department concludes the following regarding the statutory criteria applicable to the GAP:

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

- MERC has shown that for 2011 through 2014, the GAP was a contributing factor in the decrease in arrears for GAP. For this period, the GAP has satisfied the criteria that the GAP decrease or eliminate customer arrears, as required by Minn. Stat. §216B.16, subd. 15, part (b)(3);

- MERC has provided a credible analysis that shows that, during the period 2011 through 2014, the Company experienced estimated avoided costs of $25,110 due to prevented disconnection and $1.2 million due to avoided write-offs because of the GAP; For this period, the GAP has satisfied the requirement in Minn. Stat. §216B.16, subd. 15, part (b)(4);

- MERC 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).

- Using information provided by MERC, the Department has shown that, for 2009 through 2014, the GAP was a contributing factor in the increased frequency of GAP customer payments for GAP participants. Consequently, the Department concludes that MERC's GAP satisfies the criteria of increasing participant customer payments over time by increasing the frequency of payments, as required by Minn. Stat. §216B.16, subd. 15, part (b)(2).

The Department recommends that the Commission:

- Continue to exclude potential societal benefits or costs identified by the Company from any cost effectiveness analysis of the GAP; and use the tariffed financial evaluation as an indication of the GAP's cost effectiveness.

- Require the Company to use its current short-term cost of debt as the carrying charge on the GAP tracker account effective beginning the month following the Commission's Order in this matter; and,

- Set the GAP surcharge at $0.00 effective the first day of the month following the Commission's Order in this matter.

- Approve MERC's proposed changes to its methodology for calculating its GAP effective January 1, 2012.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Response Comments

Docket No. G011/M-15-539

Dated this 9th day of September 2015

/s/Sharon Ferguson

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