



A Division of MDU Resources Group, Inc.

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June 2, 2014

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 East Seventh Place, Suite 350
St. Paul, MN 55101

**RE: Gas Affordability Program Evaluation Report
Docket No. G-004/M-07-1235.**

Dear Dr. Haar:

Great Plains Natural Gas Co. ("Great Plains"), a Division of MDU Resources Group, Inc., herewith electronically files its Gas Affordability Program Pilot Evaluation Report ("Report").

If you have any questions regarding this filing, please contact me at (701) 222-7856, or Brian Meloy, at (612) 335-1451.

Sincerely,

/s/ Tamie Aberle

Tamie Aberle
Regulatory Affairs Director

cc: Brian Meloy
Service List

**STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
David C. Boyd	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

In the Matter of Great Plains Natural Gas Co.'s Gas Affordability Program Pilot Evaluation Report)	
)	Docket No. G-004/M-07-1235
)	

Pursuant to the Minnesota Public Utilities Commission's ("Commission") October 15, 2012 Order issued in the above referenced docket, Great Plains Natural Gas Co. ("Great Plains") respectfully submits its evaluation of its Gas Affordability Program ("GAP"), focusing on GAP program years 2011 through 2013.

As discussed below, despite several significant improvements made to the Program in recent years, GAP has not proven to be cost-effective from a ratepayer perspective. Great Plains' GAP has been significantly underutilized by Qualified Customers, resulting in a positive GAP balance of \$86,048.46 as of April 30, 2014 – despite the fact that the GAP cost adjustment charge was set to \$0.0 per dekatherm (Dk) effective with service rendered on and after October 19, 2012. As a result, Great Plains believes that the Commission has a reasonable basis upon which to conclude that a GAP for Great Plains' service territory is no longer in the public interest pursuant to Minn. Stat. § 216B.16, Subd. 15.

Alternatively, if the Commission believes that Great Plains' GAP should continue beyond 2014, Great Plains suggests that the GAP cost adjustment charge remain at \$0.0 per Dk and that Great Plains' GAP continue in effect until the positive GAP balance of \$86,048.46 is returned to Qualified Customers through GAP. In such an event, Great Plains would continue to submit annual reports to the Commission by March 31 of each program

year. Finally, should the GAP continue, Great Plains may also propose additional programmatic changes intended to encourage increased GAP participation.

I. GREAT PLAINS' GAP

Great Plains' GAP was approved by the Commission in Docket No. G004/M-07-1235 by Order issued on May 12, 2008. Great Plains' GAP is available to those customers who (1) have been qualified and receive assistance from the Low Income Home Energy Assistance Program ("LIHEAP"); (2) agree to be placed on a levelized payment plan; and (3) agree to a reasonable payment schedule.¹ Consistent with the requirements of Minn. Stat. § 216B.16, Subd. 15, the GAP is designed to assist qualified low-income residential customers manage and pay their natural gas bills through the establishment of a new affordability bill credit and arrearage forgiveness in certain circumstances.

Great Plains' Affordability Component consists of a bill credit available to Qualified Customers to help offset the costs of natural gas service. The bill credit is equal to one-twelfth of the difference between Great Plains' estimate of the Qualified Customer's annual gas bill and 4% of the Qualified Customer's household income as provided by the Qualified Customer to Great Plains. The LIHEAP benefit received by the customer is also considered in determining applicability of the Affordability Component.

The Arrearage Forgiveness Component of Great Plains' GAP consists of a monthly credit that is applied each month after receipt of the Qualified Customer's payment. The credit is designed to retire arrears over a period of up to twenty-four months, with Great Plains matching the Qualifying Customer's contribution to retiring arrears. Any energy assistance payments not applied to arrears is applied to a Qualified Customer's current bill.

¹ Great Plains' GAP is set forth in Section 5 of its Tariff. See http://www.gpng.com/docs/default-source/rates-and-tariffs/Gas_Affordability_Program

II. PROGRAM EVALUATION

A. GAP Participation (2011-2013).

Great Plains' GAP became effective on a "pilot" basis on June 1, 2008 and expires December 31, 2014. Great Plains is required to submit an evaluation of its GAP by June 1, 2014.² Such evaluation is intended to address the criteria established in Minn. Stat. § 216B.16, Subd. 15 as well as the criteria set forth in Great Plains' Tariff. In compliance with Commission directives, Great Plains has addressed these statutory and Tariff requirements in its 2011, 2012 and 2013 Program Year annual reports filed with the Commission, which set forth a detailed evaluation of Great Plains' GAP.

In Great Plains' GAP program year 2011 the income threshold governing GAP payments was reduced from 6 percent to 4 percent of household income;³ and West Central MN Communities Action, Inc. was hired to serve as the third-party administrator of Great Plains' GAP.⁴ Associated with these efforts, Great Plains implemented an extensive public outreach program designed to increase participation in the GAP. After low participation in Great Plains' GAP in 2008, 2009 and 2010, the reduction of the income threshold for eligibility from 6 percent to 4 percent and the partnership with West Central has contributed to an increase in the number of GAP participants in 2011, as well as an increase in benefits granted to those participants.

² Commission Order issued on October 15, 2012 granted Great Plains a two-year extension of its pilot Gas Affordability Program until December 31, 2014.

³ On September 30, 2010, in Docket No. G-004/M-10-322, the Commission authorized Great Plains to reduce the household income threshold from 6 to 4 percent.

⁴ The Commission approved West Central as the third-party administrator of Great Plains' GAP by Order dated March 30, 2011, in this proceeding. Through Program Year 2010, Great Plains administered its own GAP, while working actively with community action partnership agencies, including Tri-Valley Opportunity Council, Inc., West Central Minnesota Communities Actions, Inc., Prairie Five Community Action Council, Inc., Western Community Action, Inc., Southwestern MN Opportunity Council, Inc., Otter Tail County Human Services, and Renville County Energy Assistance Program.

In particular, as Great Plains noted in its April 2, 2012 annual report for the 2011 Program Year filed in this docket, Great Plains received 502 GAP applications in 2011 representing an increase of 83% over calendar year 2010. In addition, review of the source of the applications based on a coding system used to track applications indicated that the majority of the response was from the letters Great Plains sends directly to customers qualifying for LIHEAP in the prior season (approximately 90%) with the source of the remaining 10% of the submitted applications being the third party administrator and Great Plains' website. Great Plains also experienced an increase of 46% in the number of customers qualifying for GAP, which can be largely attributed to the reduction in the income threshold from six percent to four percent. Based on an income threshold of 6%, 77 fewer customers would have qualified for the bill assistance credit in 2011 than did using the 4% authorized criteria. The GAP applications for the 2012 Program Year came in at 449, and 389 in for the 2013 Program Year. As shown in Table 1 below, however, ultimately those customers electing to participate in GAP were significantly fewer than the number of customers that filed applications.

Great Plains also reported that it collected \$50,431.44 from customers for GAP funding for the period January 1, 2011, through December 31, 2011, through the GAP cost adjustment of \$.02034 per dk authorized by the Commission. Bill credits and arrearage forgiveness amounts totaling \$19,474.82 were issued to participating customers during calendar year 2011. This was an increase of 44% over the amount of GAP credits and arrearage forgiveness dollars expended in 2010.

While the increased participation in GAP in 2011 was encouraging, Great Plains' 2011 Program Year annual report provided the first full year of GAP results since Great

Plains implemented the two significant programmatic changes discussed above. The table below illustrates the results of program years 2011 through 2013.

Table 1

	2011	2012	2013
Participants	170	284	82
Amount Expended	\$19,474.82	\$49,451.04	\$5,188.32

This Table 1 illustrates that the program changes in 2011 impacted interest and participation in Great Plains’ GAP in years 2011 and 2012. In program year 2013, however, GAP participation dropped significantly. While Great Plains received 389 applications for GAP in program year 2013, and 95 qualified for the GAP by virtue of their eligibility for LIHEAP, only 82 customers were enrolled in GAP. The lower level of participation resulted despite Great Plains’ significant outreach efforts.

Like previous years, Great Plains provided a separate mailing regarding GAP to all customers that had received LIEAP benefits during the previous heating season. A GAP bill stuffer was also provided to all customers during the month of October 2013. Great Plains coordinated with other available low-income agencies to provide information regarding Great Plains’ GAP when applying for heating assistance. In 2013, Great Plains’ third party provider, West Central MN Communities Action, Inc. (“West Central”) did experience staffing concerns and needed Great Plains personnel to process/qualify the GAP applications received at the West Central office, however they did promote the GAP program to clients applying for heating assistance. As noted above, however, coding indicates that the majority of those customers enrolling in GAP are due to the Company’s, rather than West Central’s, outreach efforts. As such, Great Plains attributes the reduction in the number of customers that qualified in program year 2013 to the reduction in the estimated annual cost of heating due to reduced gas pricing and a reduction in customers that applied/received

heating assistance. Customer's arrears balances were also down significantly in program year 2013 and offset by the benefits received by the LIHEAP program.

B. Financial Review (2011-2013).

Table 2 below represents the evaluation of the societal and economic benefits of GAP. For instance, part of the GAP evaluation includes a review of impacts the program has had upon customer payment frequency, disconnections, customer payment amount, customer payment history, and arrearage levels based upon sampling.⁵ Table 2 shows changes in these evaluation metrics from 2011-2013:

	Table 2		
	2011	2012	2013
Payment Frequency, GAP vs. other LIHEAP	2% vs. 37%	1% vs. 14%	2% vs. 24%
Disconnection rate, GAP as a % of total disconnected	1.8%	.6%	1.4%
Disconnection rate, GAP vs. other LIHEAP	1.8% vs. 24.5%	.6% vs. 13.7%	19.5% vs. 23.9%
Average Arrears Gap vs. other LIHEAP	\$0 vs. \$46.53	\$3.00 vs. \$31.27	\$0 vs. \$8.54

As indicated in the table above, participants in GAP appears to have positively impacted customer payments, disconnections, and arrears balances.

Great Plains' Tariff requires it to perform a financial evaluation to measure GAP cost-effectiveness analysis from a ratepayer perspective as part of its Program Report of whether

⁵ In its annual evaluations, the Commission permitted Great Plains to provide data based on a random sample of ten percent of their GAP customers and an equal number of LIHEAP customers.

there is a net benefit or a net cost to ratepayers for the GAP.⁶ Table 3 below represents the financial analysis of GAP:

Table 3

Great Plains Natural Gas Company GAP Financial Evaluation Program Years 2011-2013			
	GAP Costs		
	2011	2012	2013
Affordability Component	\$16,228.61	\$44,154.68	\$2,366.34
Arrears Forgiveness	3,246.21	5,296.36	2,821.98
Administrative Costs-Internal	12,889.25	13,131.50	13,390.75
Administrative Costs-Third Party	2,500.00	2,500.00	2,500.00
Total GAP Costs	\$34,864.07	\$65,082.54	\$21,079.07
	GAP Savings		
	2011	2012	2013
Write-Offs	\$1,094.40	\$1,635.36	\$236.08
Service Disconnections/Reconnections	520.00	2,704.00	312.00
Collections Activities	2,180.00	3,608.00	1,248.00
Total GAP Savings	\$3,794.40	\$7,947.36	\$1,796.08
Net Cost to Ratepayers:	\$31,069.67	\$57,135.18	\$19,282.99

C. Cost-effectiveness

Currently Great Plains’ customers are not being charged to fund the GAP program due to the underutilized participation in GAP in previous years. In compliance with the Commission’s Order issued on October 15, 2012, Great Plains reduced the Gas Affordability Plan cost adjustment charge (GAP surcharge) of \$0.02034 per Dk to \$0.0 per

⁶ To the extent necessary, Great Plains requests a waiver of the requirement in its Tariff to provide a discounted cash flow (“DCF”) evaluating GAP cost-effectiveness. The Commission grants waivers where, as here, strict enforcement of the Tariff would impose an unnecessary burden on Great Plains. As noted above, a traditional DCF analysis is (regrettably) not necessary to evaluate the cost-effectiveness of Great Plains’ GAP. In addition to Great Plains’ allocation of internal resources to support the GAP, Great Plains’ customers have paid far more in GAP surcharges than Qualified Customers have received in benefits from 2011-2013, resulting in a significant positive GAP balance – notwithstanding the fact that the GAP surcharge was set to \$0.00 in October 2012. In this respect, granting a waiver in this circumstance will not adversely affect the public interest or conflict with any standards imposed by law.

Dk, effective with Service Rendered on and after October 19, 2012. Notwithstanding this change, Great Plains currently has a positive GAP balance of \$86,048.46 as of April 30, 2014, indicating that the program has been historically underutilized as Great Plains' GAP cost adjustment charge has resulted in GAP collections from customers that were not used.

Although Great Plains' program was under-utilized in 2013 program year, in the first three months of program year 2014 Great Plains has enrolled 139 customers in the 2014 program year and as of March 31, 2014 a total of \$6,003.45 bill credits and arrearage forgiveness has been credited to Great Plains' customers. The funds disbursed in the first three months of program year 2014 are already greater than the funds disbursed in all of program year 2013. Although program year 2014 is demonstrating greater participation in GAP over the 2013 program year, the Company's evaluation of the net cost to ratepayers for GAP along with the administrative burden does not justify continuing with GAP in year 2015.

If the Commission believes that Great Plains' GAP should continue beyond 2014, Great Plains suggests that the GAP Surcharge remain at \$0.0 per dekatherm (Dk) and that Great Plains' GAP continue in effect until the positive GAP balance of \$86,048.46 is returned to Qualified Customers through participation in GAP. In such an event, Great Plains would continue to submit annual reports to the Commission by March 31 of each program year. Should the GAP continue, Great Plains may also propose additional programmatic changes intended to encourage increased GAP participation.

**III.
CONCLUSION**

In the review and analysis of Great Plains' GAP the Company requests the Commission:

- 1) Allow Great Plains to discontinue the GAP pilot program after completion of the 2014 program year due to the underutilization of the program by customers and the net cost to ratepayers for the GAP.
- 2) After completion of the 2014 program year, Great Plains requests the Commission allow the utility to refund the remaining surcharge funds collected through the GAP adjustment through the purchased gas cost adjustment mechanism.
- 3) If the Commission determines that Great Plains continue with the GAP, the Company requests the Commission allow Great Plains to propose changes to the current program and continue to fund the program until the GAP surcharge balance is depleted.

Dated: June 2, 2014

Respectfully Submitted,

/s/ Tamie Aberle

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