Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: September 17, 2015….. **Agenda Item # 9

Company: Minnesota Energy Resources Corporation

Docket No. G-011/M-15-539

In the Matter of Minnesota Energy Resources Corporation's (MERC) 2015 Evaluation of its Gas Affordability Program

Issues: 1.) Should the Commission approve MERC's 2015 Evaluation of its Gas Affordability Program (GAP)?

2.) Should the Commission require the Company to change the way it applies the affordability component to allow GAP customers to pay their share of the current portion of their bill in twelve, equal payments?

3.) Should the Commission reduce, or eliminate the per therm surcharge which funds the Program?

4.) Should the Commission authorize a four-year extension of the pilot or make the Program permanent?

Staff: Ann Schwieger..(651) 201-2238

Relevant Documents

MERC – Initial Filing...June 1, 2015
MERC - Letter ....July 24, 2015
Department - Comments ....July 28, 2015
MERC – Reply Comments .... August 10, 2015
MERC – Supplemental Reply Comments .... August 17, 2015
Department – Response Comments ....September 9, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

September 10, 2015

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Statement of the Issues

- Should the Commission approve MERC's 2015 Evaluation of its Gas Affordability Program (GAP)?
- Should the Commission require the Company to make changes in the way it applies the affordability credit?
- Should the Commission reduce, or eliminate the customer surcharge which funds the Program?
- Should the Commission authorize a four-year extension of the pilot or make the GAP permanent?

Background

June 1, 2015: MERC filed its 2015 evaluation of its Gas Affordability Program. This evaluation included background information, a description of the Program and information on Program participation. The Company also provided an evaluation of the Program from both statutory and cost-effectiveness perspectives, and discussion of other relevant factors including societal benefits. The Company proposed a four-year extension of its Program, reduction of the annual Program budget from $1 million to $750,000 and a reduction of its GAP surcharge from $0.00441 to $0.00158 per therm, effective January 1, 2016.

July 24, 2015: MERC submitted a letter and an update of its projected tracker account balance. The tracker balance was updated to reflect the correct rate of return was applied to the proper period and used to calculate the Company's carrying costs.

July 28, 2015: The Department submitted its comments and requested additional information from the Company. The Department agreed with the Company's proposal to:

- Maintain the Company's "percent of income" credit component.
- Maintain the Company's arrears forgiveness component.
- Allow customers without arrears at the time of enrollment to participate for 12 months and customers with arrears at the time of enrollment to participate for 24 months.
- Extend the Program for four years, or until December 31, 2019, at which point the Commission would again review MERC's GAP.
- Lower the annual budget from $1 million to $750,000.

The Department disagreed with the Company's proposal to lower its GAP surcharge from $0.00441 to $0.00158 effective January 1, 2016 to amortize the tracker account balance over a four year period. The Department recommended the GAP surcharge be set at $0.00 per therm beginning the month following the Commission's Order in this proceeding.

The Department also recommended the Commission require the Company to use its current short-term cost of debt to calculate the carrying costs in the tracker, rather than its current overall rate of return. This is the same carrying cost approved by the Commission for the Conservation

Improvement Program (CIP).

August 10, 2015: MERC submitted reply comments and stated it does not object to setting the carrying charge included in the GAP tracker at the Company's cost of short term debt as this would be consistent with the Commission approved carrying charge for its Conservation Improvement Program.

MERC stated it did not agree with the Department's recommendation to set the monthly surcharge to $0.00. The monthly impact to an average customer's bill would be an approximately $0.35 per month savings. The Company argued that such a minor impact to customers is significantly outweighed by the potential for customer confusion if the surcharge is completely eliminated from the customer's bill.

August 17, 2015: MERC submitted supplemental reply comments in which it revised its tracker account back to 2012 to correct the carrying charge calculation the Commission approved in an Order issued on December 29, 2011 in Docket No. G-007,011/M-07-1131. The correction resulted in an additional benefit to ratepayers because the total tracker balance has been positive (over-collected) since 2013. Based on the correction to the carrying charge calculation, MERC has projected that the tracker balance will continue to be over-collected through 2016. MERC stated it now agrees with the Department's recommendation to set the surcharge to $0.00.

September 9, 2015: The Department submitted response comments and recommended the Commission approve MERC's proposals for its GAP.

Introduction

MERC's Gas Affordability Program is a $1 million per year pilot program that began on April 1, 2008. The Program was first evaluated in 2011. At that time MERC's Program had been operating at capacity or higher from the start of the Program. The Commission was encouraged by MERC's report and found that the GAP increased participating customer payments over time by increasing the frequency of payments and decreasing arrears for the Program participants. In addition to allowing the Company to continue to recover its annual Program budget, the Commission allowed the Company to recover the excess, approximately $688,000, of its projected tracker balance as of December 31, 2011. The excess was amortized over a four year period and a revised per them rate of $0.00441 was implemented. The Company was also allowed to apply a carrying charge at its current authorized rate of return.

The Company finds itself in a much different position as of its second program evaluation. At the end of 2014, MERC's tracker balance was over-recovered by $1,106,456. This represents a significant change as the tracker balance is to the point where it is substantially larger than appropriate. The Company recognized the situation and has proposed several changes to the Program on a going forward basis. The proposal includes MERC's new GAP customers which it acquired along with Interstate Power & Light's Minnesota assets in May of 2015.

- Decrease the current surcharge from $0.00441 per therm to $0.00158 per therm. (64% reduction).

- Amortize the forecasted 2015 tracker balance over four years.
- Decrease the annual GAP budget from $1 million to $750,000.

The Department disagreed with MERC's proposal to lower the per therm rate and recommended the Company to set the per therm charge at $0.00. The Company initially disagreed with this recommendation, but after recalculating its projected tracker to incorporate the Department's recommendations the Company agreed that the per therm charge should be set to $0.00.

MERC and the Department are in agreement in all respects including approving the Company's evaluation, continuation of the Program and decreasing the annual Program budget.

Low-Income Affordability Statute

Minn. Stat. §216B.16, Subd. 15 required all gas utilities to file proposals for low-income affordability programs with the Commission. Certain performance and evaluation requirements and cost recovery standards for these Programs are identified in the statute. All of the natural gas utilities operate low-income affordability programs.

In evaluating MERC's 2011 through 2014 GAP in relation to the statutory criteria, the Department concluded MERC has shown following:

- The GAP was a contributing factor in decreasing the percentage of income that participating households devoted to energy bills;
- The GAP has satisfied the criteria that the GAP decrease or eliminate customer arrears;
- MERC has provided a credible analysis that shows that 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;
- The Company coordinated the GAP with other low-income bill payment assistance and conservation resources;
- The GAP was a contributing factor in the increased frequency of GAP customer payments over time by increasing the frequency of payments, as required by Minn. Stat. §216B.16, subd. 15, part (b)(2).

GAP Customer Payment Frequency

Declining Payment Frequency of GAP Customers

The Department requested that MERC discuss in reply comments potential reasons for the relatively stable payment frequency among LIHEAP customers compared with the declining payment frequency of GAP customers, and identify any potential GAP design changes that could improve payment frequency. The Department's concern is shown in the table below. The number of payments is the total number of payments made by all customers within that class.

The payment per customer is shown as an average.

Payments Made In:	All Gap Customers	New GAP Customers	LIHEAP Recipients
2014	14,922 payments 7 payments per GAP customer	9,697 payments 10 payments per GAP customer	138,264 payments 10 payments per LIHEP recipient
2013	9,928 payments 9 payments per GAP customer	640 payments 7 payments per GAP customer	120,602 payments 10 payments per LIHEP recipient
2012	10,486 payments 10 payments per GAP customer	680 payments 8 payments per GAP customer	126,070 payments 10 payments per LIHEP recipient
2011	15,327 payments 12 payments per GAP customer	388 payments 7 payments per GAP customer	143,875 payments 10 payments per LIHEP recipient

MERC's Response

MERC responded that GAP customers who miss two consecutive monthly payments are removed from MERC's program. As a result, GAP customers may miss one payment but in general do not miss two consecutive payments. This is reflected in MERC's consistently high retention rates for GAP (96% in 2011, 97% in 2012, 95% in 2013, and 92% in 2014). Additionally, customers who miss a single payment will pay both their current month balance and the prior month balance and as a result, the GAP program has been very successful in increasing overall payments by participating customers.

MERC believes that a program modification to require removal after a single missed payment would be unreasonable because many more customers would default from the Program and such requirement would significantly deter participation. Further, it is not clear the extent to which the decrease in frequency of payments in 2014 was an outlier caused by the polar vortex and resulting increase in customer bills. Taking 2014 out of consideration, GAP payment frequency through 2013 was tracking closely with LIHEAP payment frequency over that period of time. MERC will continue to monitor the situation on an annual basis, and will reevaluate based on the frequency of payments per GAP customer as compared to LIHEAP after the frequency numbers for 2015 are completed.

Finally, as discussed in MERC's evaluation, the payment data for the 2014 GAP enrollees is difficult to compare with overall payments the last few years because of the increase in enrollments. The number of full payments recorded each month increased because most Energy Assistance credits are made over four months. MERC also saw a substantial increase in the number of LIHEAP recipients in 2014. Similar to GAP, the increase in LIHEAP enrollees increased the number of payments in 2014. It has been difficult to draw conclusions in comparing the monthly payment practices of these three customer groups because of the many uncontrolled factors that contribute to the amounts and payment frequency such as growing credit balances on participants' accounts, LIHEAP funding levels and payment schedules, weather, gas cost, number in household, and fluctuation in household income.

Department's Response

Department revisited the information that MERC provided in its 2011 and 2015 GAP Evaluation Reports because 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 and 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."

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.

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 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 concluded that MERC's GAP satisfied this statutory requirement.

Potential Societal Benefits and Costs

The Company provided additional information on potential societal benefits in its initial filing to provide an additional perspective in this Program evaluation. MERC stated it is unable to quantify or verify the potential additional benefits presented. Potential societal benefits identified by MERC include:

- Household Budget Management – GAP had a consistent retention rate, indicating that customers succeeded when a set-monthly credit (based on household income and annual gas consumption) is applied to their monthly gas bill. Adding to this success is the other program component that spreads customers' arrears at enrollment over 24 months.

Moreover, half of the arrears are forgiven, with the customers' monthly payment set at the amount necessary to pay half of the arrears balance during the course of their 24-month participation in the Program. The model that MERC used to "right- size" customers' monthly bill encourages customers' efforts to improve household budget management. As customers make these monthly payments, they are rewarded each month with an account credit and another portion of their arrears are forgiven. This incentive alone helps customers learn how to manage their limited household income. MERC also believes that holding the customer accountable for the balance of their monthly gas consumption provides motivation for them to take conservation measures and seek further assistance.

- Stabilizing Household Mobility – Low- and limited-income households tend to be more transient. Historically, a greater percentage of these households are renters and may be forced to move for employment, transportation, and other reasons. MERC continues to believe that GAP-assisted customers benefit from staying in their current housing, rather than moving in an effort to lower utility costs. A lower probability of moving equates to less money spent on moving, rental and utility security deposits, lost work time, and other moving- related expenses.
- Growing the "Safety Net" – Over the evaluation period, GAP funding has helped meet the shortfall for customers receiving LIHEAP benefits and reduced the number of customers in crisis, reducing the immediate need for emergency energy assistance benefits. In 2014, the State of Minnesota's program served roughly 135,000 households; however, an estimated 639,000 households are eligible households within the State, up about 50,000 from 2010.
- New Program Development to Help Off-Set the Growing Energy Burden –In recent years, national data continued to suggest that there is a growing disparity in the energy burden between low-income households and the average residential customer (about 2.8% of household income). This disparity increases the need for energy assistance programs and funds.

MERC summarized, there is a demand for much greater assistance beyond what the LIHEAP program can provide, and GAP has provided a successful supplemental boost to the LIHEAP benefits. This is the type of program that can help bridge the "gap" that is growing between what average low-income household consumption is and what these consumers can afford. And it provides much brighter potential to move more families and individuals toward self-sufficiency.

The Department recommended that the Commission 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. MERC agreed with the Department's recommendation because the Company stated it is unable to quantify or verify the potential additional benefits of the Program.

Foregone LIHEAP Benefits

The Department requested that MERC discuss the magnitude of the "foregone LIHEAP emergency benefits" it identified and the drivers of the increase in the number of GAP participants receiving LIHEAP grants in its reply comments.

MERC stated as it indicated previously, there is no doubt that the emergency energy assistance benefits of GAP participants have been impacted due to the GAP benefits, because enrollment in GAP provides protection against any collection activity to allow households to avoid crisis scenarios. That said, 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. For example, the actual amount of potential assistance, including the amount of available funding, the number of customers that apply for emergency assistance, and how the county agency determines need and pays benefits.

As MERC has described in the past, quantitative analysis is difficult because participation varies year-to-year. Further, a colder than normal winter and higher application trends impact the number of customers the Program serves. The weather's impact on GAP and LIHEAP participation in 2014 demonstrates this effect. The 2014 winter was one of the coldest in recent memory. The cold weather drove up customer bills, and increased other customer costs, including repairs. The increase in both GAP participation and GAP recipients receiving LIHEAP grants in 2014 reflects this weather anomaly.

MERC – GAP Recipients of LIHEAP Grants

GAP Program Year	# of Recipients Grant	Grant Totals
2015	1,916*	$356,961*
2014	2,015	$761,268
2013	1,192	$353,863
2012	1,246	$290,290

* Received through 5/31/15

The colder than normal weather in the winter of 2014 had a significant impact on all parts of MERC's business, including GAP participation. As demonstrated in the chart above, until 2014, the number of GAP participants who received LIHEAP grants was decreasing, which would be reflected in a decreased need for emergency benefits by GAP participants. MERC noted that the number of GAP recipients also receiving LIHEAP grants has gone down from 2014 to 2015, but it is not clear the impact that the winter of 2014 is still having on customers trying to recover. MERC stated it will continue to monitor this impact to determine if the number of GAP participants received LIHEAP grants continues to decrease, thus reflecting a decrease in use of those emergency benefits.

The Department agreed that the interplay between LIHEAP and utility GAP's is somewhat complex and stated that it will continue to study the issue going forward to identify any potential program design recommendations that may enhance the effectiveness of the utility GAPs.

Correction to Carrying Charge

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."*

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, by 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.

The Department stated it 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. The Department stated it supports MERC's efforts to correct its methodology for calculating its 2012 through 2015 tracker balance. The Department recommended that the Commission approve MERC's proposal to recalculate its GAP tracker balance using the proposed methodology effective January 1, 2012.

Staff Analysis

Staff believes MERC's report and the Department's comments provide a thorough discussion of MERC's Program. Staff will not repeat that discussion in these briefing papers. There are several additional issues that Staff will discuss.

Program Evaluation

MERC and the Department are in agreement that the evaluation MERC provided should be approved by the Commission. Both parties agree that MERC's Program has satisfied the criteria set forth in the low-income affordability program statute that requires affordability programs to:

- Lower the percentage of income participants devote to energy bills,
- Increase the frequency of participant bill payments,
- Decrease or eliminate participant arrearages,
- Lower costs associated with collection activities and service disconnections, and

- Coordinate with other low-income programs and conservation resources.

MERC and the Department are also in agreement on the cost/benefit analysis MERC provided in its evaluation as required by its GAP tariff. In the event there is a surplus benefit, that amount is to be returned to MERC's customers through the operation of MERC's GAP tracker account. MERC's analysis identified various societal benefits and avoided societal costs that are external to MERC and difficult to quantify. The inclusion of societal benefits improves the benefit to cost ratio for this program, but MERC's analysis did not indicate a net benefit. The Department suggested that societal benefits and costs not be included in the cost benefit analysis.

Staff believes that in the absence of net benefits that could be returned to ratepayers, such as a reduction in bad debt expense in excess of program costs, the analysis is informative. Staff believes the cost/benefit analysis requirement should remain in the tariff and should be reviewed in future program evaluations.

Customer Pays Remaining Balance of Monthly Bill

In working through a PUC complaint this past winter it was brought to Staff's attention that MERC operates its Program in a slightly different manner from Xcel and CenterPoint. As provided by the Company, the following compares and contrasts the similarities and differences of the Programs.

Eligibility:
The MERC program eligibility is identical to Xcel and CenterPoint.

- Customers must be a LIHEAP recipient to be income-qualified for GAP.
- Customers must be eligible for a Percent of Income credit to be enrolled.
- Customers who miss two consecutive monthly payments are removed from the program.
    - Customers who default in a given program year cannot apply again until the next program year.

Program Components:
The MERC program includes both a Percent of Income and an Arrears Forgiveness component (if customers are in arrears at enrollment).

- The Percent of Income credit is determined by calculating 1/12th the difference of 6% of the annual household income and 12 months of the gas bill.
- MERC's Arrears Forgiveness is a 24-month cycle, not a 12 month cycle (regardless of the account balance at enrollment).
- Customers pay ½ of their arrears over 24 months and MERC "forgives" ½ of their arrears over 24 months.
- MERC has considered the levelized payment plan as Customers pay 1/48 of their arrears (so spread out over 2 years) + the current bill minus the Percent of Income credit (based on income level and 12-months consumption) each month.

Program Discrepancies:

MERC customers are responsible for the balance of their monthly gas bill (after applying the Percent of Income credit) + 1/48 of any arrears at enrollment.

- MERC believes this holds customers more accountable for their monthly gas consumption and encourages conservation measures.

At the end of the 24 month cycle, MERC customers no longer have any arrears and can continue participation in the program and continue to receive the monthly Percent of Income credit, as long as they continue to be LIHEAP recipients each program year.

- MERC believes this meets one of the goals of program by moving more households toward self-sufficiency.

MERC believes that its program is designed better than Xcel's program because Xcel's program does not encourage customers to be more accountable for their monthly gas usage.

- Customers are continually building new arrears, so at the end of the 12 or 24 month cycle, they must enter into another Arrears Forgiveness cycle.
- The fact that customers' arrears are never paid off does not move households toward self-sufficiency.

Application of Energy Assistance Payments:

All utilities must apply Energy Assistance payments accordingly per the requirements set forth for all energy vendors.

- Payments must be applied first before all other payments.
- Payments must be applied to the current bill and the balance to all future bills.
    - The remaining credit on a customer's bill is applied to each month's bill until the credit balance is exhausted.
    - Customer's with very low income and very high gas consumption may not have to pay a monthly bill for some months until the balance of the Energy Assistance dollars are used up.

MERC stated it program model has served its low-income customers very well over the years. MERC's success rate (per its retention rate) has been very consistent and has supported customers' efforts to eliminate their debt to the utility, to take some measures to conserve energy and continue to take advantage of a reduced monthly gas bill for an extended period of time. This program has significantly helped customers bridge the financial gap between declining/unstable LIHEAP funding and the energy burden of low-income households.

In reviewing MERC's 2015 GAP application form, Staff notes that by signing the application, the Customer agrees that their enrollment in the Program will automatically cancel any previously agreed upon payment plans, including, but not limited to: Budget Plan, 10 Percent Plan, Inability to Pay Plan, etc. Staff notes that by enrolling in the GAP, the Customer also relinquishes protection under the Cold Weather Rule.

Staff notes that according to MERC's GAP tariff:

> "*Customers must agree to be placed on a* <u>*levelized*</u> *payment plan and must also agree to a payment schedule as described below to be considered a Qualified Customer.*"

> *"A Qualified Customer's payment schedule shall include both payment of the customer's current month's bill (which reflects one-twelfth the levelized payment plan), after inclusion of the affordability bill credit, and payment of a portion of the Qualified Customer's pre-program arrears."*

Additionally, the tariff states:

> *"The Affordability component consists of a bill credit determined as one-twelfth of the difference between MERC's estimate of the Qualified Customer's annual gas bill and 6% of the Qualified Customer's household income as provided by the Qualified Customer to MERC. This bill credit is a Program cost that will be included in the Tracker. Any energy assistance sums not applied to arrears will be applied to a Qualified Customer's current bill."*

Staff notes that MERC considers the levelized payment plan as Customers pay 1/48 of their arrears + the current bill minus the Percent of Income credit (based on income level and 12-months consumption) each month. MERC customers are responsible for the balance of their monthly gas bill. It is Staff's opinion that MERC's interpretation and application of its tariff does not result in a levelized payment plan because the amount the Customer is responsible for varies from month to month.

Staff is unsure what effect and magnitude holding the Customer responsible for their monthly balance has on the Customer. As shown in the Application of Energy Assistance Payments section above, a customer with very low income and very high gas consumption may not have to pay a monthly bill for some months until the balance of their Energy Assistance dollars are exhausted. On the other hand, holding the Customer accountable for an unexpected monthly balance may cause a hardship on the family. If a household is considered low income, it may have to make a choice between paying its utility bill or putting gas into their car or perhaps buying groceries. The Commission may want to ask the Company (and the Department and interested stakeholders) to explain what the effect is and magnitude of holding a low-income Customer liable for its excess bill.

If the Commission decides that MERC's modification to the Program is acceptable, MERC's tariff should be updated to reflect that the Customer is responsible for paying any overage between its affordability credit and actual monthly bill. If the Commission decides that MERC's Program should be administered in the same manner as CenterPoint and Xcel's Program, the tariff would not need to be modified but MERC would need to administer the Program according to the tariff.

Program Continuation - Extend the Program for Four Years or Make Permanent

At this point in time, the Commission needs to make a decision whether to extend the pilot Program for four years, or to make the Program permanent. If the Commission decides to extend MERC's Program as a pilot, the extension would be granted through December 31, 2019 and an evaluation of the Program would be due by May 31, 2019. Regardless of the Commission's decision to extend the pilot Program, or make the Program permanent, the Company would be required to submit an annual report by March 31 of each year.

Decision Alternatives

Program Evaluation

1.) Accept MERC's evaluation of its pilot Gas Affordability Program. (Department, MERC, PUC staff recommendation) or

2.) Do not accept MERC's evaluation of its pilot Gas Affordability Program.

Program Design and Modification

3.) Maintain the Company's six percent of income credit component (MERC, Department, PUC staff recommendation), and

4.) Maintain the Company's arrearage forgiveness component and allow the arrearage to be extinguished over a twenty-four month cycle (MERC, Department, PUC staff recommendation).

5.) Allow the Company to continue to require the Customer to pay the entire amount due on the current portion of the monthly gas bill after application of the percentage of income credit (MERC, PUC staff recommends either 5 or 6), or

6.) Require the Company to modify how it administers its Program by requiring the Company to follow its GAP tariff by offering GAP customers a levelized payment plan consisting of 12 equal monthly customer payments. If there is any balance due, require the Company to accumulate the arrearage into the Customer's account to be extinguished over the next twenty-four month cycle of the Program. (PUC staff recommends either 5 or 6)

Treatment of Regulatory Asset in GAP Tracker Account

7.) Allow MERC to correct the methodology regarding the treatment of the regulatory asset and the effect it has on the GAP tracker balance retroactive to January 1, 2012. (MERC, Department, PUC staff recommendation) or

8.) Do not allow MERC to correct the methodology regarding the treatment of the regulatory asset and the effect it has on the GAP tracker balance.

Program Budget

9.) Allow the Company to reduce the annual Gas Affordability Program budget to $750,000 annually. (MERC, Department, PUC staff recommendation), or

10.) Maintain the Gas Affordability Program budget at $1 million annually,

Program Cost Recovery

11.) Authorize the Company to recover the projected tracker balance over four years, plus the $750,000 proposed annual budget through a revised per therm rate of $0.00 per therm (MERC, Department, PUC staff recommendation), or

12.) Authorize the Company to recover the projected tracker balance and the authorized annual budget through a method the Commission determines to be reasonable.

Tracker Account Carrying Charge

13.) Authorize the Company to continue to apply a carrying charge to its tracker account at MERC's currently authorized rate of return, or

14.) Set the carrying charge equal to the currently approved cost of MERC's short term debt. Require MERC to update the cost of short term debt to reflect any decisions made in a future rate case. (MERC, Department, PUC staff recommendation)

Program Continuation

15.) Authorize MERC to continue its pilot Gas Affordability Program for an additional four years, through December 31, 2019. An evaluation of the Program submitted by May 31, 2019 and annual reports submitted by March 31 of each year. (Department, MERC, PUC staff recommendation) or

16.) Authorize MERC to continue is Gas Affordability Program as a permanent program & submit annual reports by March 31 of each year the Program continues. or

17.) Require MERC to terminate its Gas Affordability Program at the end of the Program's current term on December 31, 2015.

Effective Date

18.) Order the effective date to be set at the first of the month following the issuance of the Commission's order. (MERC, Department, PUC staff recommendation) or

19.) Order the effective date to be set as January 1, 2016.

Compliance Filings

20.) Require MERC to submit revised tariff sheets that reflect the Commission's decision in this docket within ten days of the Commission issuing its order. (PUC staff recommendation) and

21.) Require MERC to notify its customers of any authorized changes in the affordability program and the affordability surcharge and require MERC to submit copies to the Commission, in MERC's ten-day compliance filing, of any materials (e.g. bill inserts, customer notices, bill messages, call center phone scripts) explaining the changes in the affordability program and surcharge to customers. (PUC staff recommendation)

PUC Staff Recommendation

1, 3, 4, 5 or 6, 7, 9, 11, 14, 15, 18, 20, 21