Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: June 30, 2016 .... Agenda Item # 5*

Companies: All Regulated Natural Gas Utilities

Docket Nos. G-008/M-16-266
In the Matter of the Application of CenterPoint Energy's Gas Affordability Program 2015 Annual Compliance Report

G-002/M-16-272
In the Matter of the Application of Xcel Energy's Gas Affordability Program 2015 Annual Compliance Report

G-011/M-16-273
In the Matter of the Application of Minnesota Energy Resources Corporation's Gas Affordability Program 2015 Annual Compliance Report

G-004/M-16-275
In the Matter of the Application of Great Plains' Natural Gas Company, a Division of MDU Resources Group, Inc. Gas Affordability Program 2015 Annual Compliance Report

G-022/M-16-233
In the Matter of the Application of Greater Minnesota Gas, Incorporated's Gas Affordability Program 2015 Annual Compliance Report

Issues: Review and acceptance of the 2015 Gas Affordability Program (GAP) annual compliance reports.

Staff: Ann Schwieger 651-201-2238

(Relevant documents are listed on the next page)

Relevant Documents

2015 GAP Annual Compliance Reports

Greater Minnesota Gas – Initial Filing	March 17, 2016
CenterPoint Energy – Initial Filing	March 31, 2016
Xcel Energy – Initial Filing	March 31, 2016
MERC – Initial Filing	March 31, 2016
Great Plains – Initial Filing	March 31, 2016

Comments

Department of Commerce – Comments (on GMG)	April 18, 2016
Department of Commerce – Comments (on CPE, Xcel, MERC & GP)	May 2, 2016

Reply Comments

CenterPoint Energy – Reply Comments	May 12, 2016

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.

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June 23, 2016

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Statement of the Issues

Review and acceptance of the 2015 Gas Affordability Program (GAP) annual compliance reports.

Introduction

The gas affordability programs are reviewed each year (through the filing of annual compliance reports) and periodically (through the program evaluation process). Improvements and efficiencies have been incorporated into the design and administration of these programs on an ongoing and as-needed, basis. Staff expects fewer changes to these programs will be necessary now that these programs have been reviewed and evaluated several times and are more established. The chart below shows the Companies' annual Program budget and the number of customers enrolled in the Program at some point during the year.

	CenterPoint	Xcel	MERC	Great Plains	GMG
Annual Program Budget	$5,000,000	$2,500,000	$750,000	$50,000	$0
GAP Participants – Enrolled at some point during the year	13,964	11,041	1,993	179	27

Background

Low-Income Affordability Program Statute, Minn. Stat. § 216B.16, subd. 15

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.

Annual Reports for Calendar Year 2015 & Party Comments

Between March 17 and March 31, 2016, all of the gas utilities submitted annual Gas Affordability Program (GAP) compliance reports for calendar-year 2015. These reports describe the affordability programs offered by each company and provide data on the administration, operation and performance of each program.

On April 18, 2016, the Department submitted comments and recommended the Commission accept the GAP report provided by GMG.

On May 2, 2016, the Department submitted comments and recommended the Commission accept the GAP reports for CenterPoint Energy, Xcel Energy, Minnesota Energy Resources Corporation, and Great Plains Natural Gas.

On May 12, 2016, CenterPoint Energy submitted response comments and agreed with the Department's recommendation that the Commission accept its 2015 GAP Annual Compliance Report.

CenterPoint Energy also responded to the Department's discussion on alternative GAP surcharge allocations. The Company stated it is not aware of any new information that would justify a change to the current GAP surcharge allocation method. The Company stated that, if the Commission decides to pursue this matter further, the Company would be willing to provide additional information in next year's annual compliance filing to fully develop the record.

Commission Orders

Program Authorizations

The Commission issued orders authorizing the start of each gas affordability program. All of the GAP programs were set up as pilot programs that expire on a certain date unless the Commission evaluates and then authorizes the programs to continue. CenterPoint's and Xcel's programs predate the statutory requirement for these programs and were initially authorized in rate cases. MERC's, Great Plains', Interstate's,[1] and GMG's programs are the result of filings required by the low-income affordability program statute. The GAP annual filings were originally filed under the docket numbers under which the programs were originally authorized. In 2015, the Commission ordered the GAP reports to be filed as miscellaneous filings under Minn. R. 7829.1300 and assigned new docket numbers annually.

Annual Reviews

The Commission issued orders reviewing the GAPs for calendar-years as follows:

- 2008 GAP annual reports on July 8 and November 18, 2009.
- 2009 GAP annual reports on September 22, 2010.
- 2010 GAP annual reports on December 29, 2011.
- 2011 GAP annual reports on October 5, 2012.
- 2012 GAP annual reports on September 25, 2013.
- 2013 GAP annual reports on November 26, 2014.[2]
- 2014 GAP annual reports on September 29, 2015.[3]

[1] Interstate's program was incorporated into MERC's when MERC received permission to acquire Interstate's Minnesota gas properties.

[2] The 2008 through 2013 GAP annual reports were filed under the following Docket Nos.: G-008/GR-05-1380 CenterPoint, G-002/GR-06-1429 Xcel Energy, G-011/M-07-1131 MERC, G-004/M-07-1235 Great Plains, G-022/CI-08-1175 Greater Minnesota Gas.

Program Evaluations

In addition to the annual acceptance of the GAP reports, the programs are also evaluated periodically on a company basis. The Commission then determines how the program is working, if modifications should be made to the program and if it should continue as a pilot program or become a permanent program. MERC and Great Plains had their programs evaluated in 2015 and 2014 respectively. CenterPoint,[4] Xcel,[5] and Great Plains are due to be evaluated later this year during a separate Commission proceeding. Highlights of the Commission decisions made during the last evaluation of these programs are presented below. Greater Minnesota Gas proposed significant changes to its GAP in 2015. GMG's program is discussed in greater detail below.

MERC

- Evaluated in 2015.
- Extended the Program through December 31, 2019.
- Allowed a program annual budget reduction from $1,000,000 to $750,000.
- Allowed correction to the methodology of the treatment of the regulatory asset and the effect it has on the GAP tracker balance, retroactive to January 1, 2012.
- Set the tracker carrying charge equal to the most currently approved cost of short-term debt and required to update pending any decisions made in future rate cases.

Great Plains Natural Gas

- Evaluated in 2014.
- Extended the Program through December 31, 2016.
- Ordered the Company to explore ways to increase customer participation in the GAP.
- Ordered the Company to explore alternatives to reduce administration costs.
- Explore opportunity of finding another party to administer the Program and to coordinate with other programs designed to help low-income consumers or facilitate conservation.

CenterPoint Energy

- Evaluated in 2013.
- Extended the Program through December 31, 2016.
- Modified timing of the arrearage forgiveness credit applied to customers' account. Now applied before customer payment is received which mirrors the application of the affordability credit.

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[3] For the 2014 GAP annual reports the Docket Nos. were as follows: G-008/M-15-307 CenterPoint, G-002/M-15-314 Xcel Energy, G-011/M-15-308 MERC, G-004/M-15-306 Great Plains, G-022/M-15-315 Greater Minnesota Gas.

[4] Docket No. G-008/M-16-486.
[5] Docket No. G-002/M-16-493.

Xcel Energy

- Evaluated in 2012.
- Authorized four year extension of the Program (through December 31, 2016).
- Discontinue practice of removing customers when they accrue a $500 credit balance.
- Raised the dollar amount of the threshold amount that triggers an account review to a credit balance exceeding $1,000 and required Xcel to consult with the Department, OAG and ECC on an appropriate new removal threshold.
- Required Xcel to reduce the tracker balance by $1 million by reducing the GAP surcharge from $0.00445 to $0.00400 effective January 1, 2013 and continuing through December 31, 2016.
- Continue Program outreach to low income households.

Greater Minnesota Gas

In its 2014 program evaluation, GMG proposed ending its GAP because its Program was not cost effective. The Company argued that its Program was doing little to achieve the goals of a gas affordability program, such as lowering the percentage of income that low-income households devote to energy bills or increasing the frequency of payments made by the GAP customer. In the 2013 program year, only 14 customers were enrolled in the Company's GAP. The Company eventually removed 12 of the customers for failing to comply with the Program's requirements, such as failing to pay two consecutive monthly payments.

The Department, the OAG and Energy Cents Coalition (ECC) disagreed with GMG's proposal and recommended that GMG should explore how the Program may be changed to operate more effectively and efficiently, including re-evaluating how the Program is structured and administered. The Commission met on September 17, 2015, agreed with the Department, the OAG and ECC and directed GMG to continue its Program as structured for an additional year.[6]

As a result of the Commission meeting, GMG abandoned the type of change it had been assessing and agreed to partner with ECC to assist with administration of its GAP. GMG filed for a Gas Affordability Plan Revision[7] on September 25, 2015. The Company modeled its proposed program design after those of larger utilities. The Company proposed an annual program budget of $20,000 which GMG will track and defer implementation of a customer surcharge until after the completion of the 2017 program year.

The affordability component of GMG's GAP is currently a waiver of the monthly facility charge administered to the customer's account quarterly. In the 2016 program year, the affordability component will be a bill credit determined as one-twelfth of the difference between the utility's estimate of the qualified customer's annual natural gas bill and 4% of the qualified customer's annual household income as provided by the qualified customer to the utility. Once enrolled in the program, any energy assistance monies not applied to past due bills are applied to the customer's current bills in accordance with LIHEAP program guidelines. The remaining balance

[6] Docket No. G-022/M-15-315, Order issued November 25, 2015.
[7] Docket No. G-022/M-15-855.

is applied to future bills. Energy assistance is not considered part of household income in the calculation of the affordability credit.

The arrearage forgiveness component of GMG's Program is currently a one-time bill credit of $102 if the customer makes 12 consecutive, timely payments. When the revised program is implemented, the arrearage forgiveness component will be a matching credit from the utility that is applied to an income qualified customer's account each month after receipt of the customer's scheduled arrears payment. The application of this monthly credit and customer payment retires pre-program arrears over a period of up to 24 months. Energy assistance is not considered in the calculation of the forgiveness of pre-program arrears.

On December 1, 2015, the Commission issued an Order and approved GMG's changes to its GAP and authorized implementation as of January 1, 2016. The Order also increased GMG's reporting requirements to be more in line with those of the other utilities. It is important to note that the statistics presented by GMG represent the 2015 program year and do not reflect the changes to the program the Company is expected to implement in 2016.

Pilot Program Evaluations and Termination Dates

Great Plains and GMG programs were evaluated in 2014 for the second time. MERC's program was evaluated for the second time in 2015. CenterPoint, Xcel and Great Plains programs will be evaluated again in 2016. The following table summarizes the upcoming milestones for each program.

	CenterPoint	Xcel	MERC	Great Plains	GMG
Program Effective Date	5/1/2007	2/1/2008	4/1/2008	6/1/2008	10/9/2008 (approx.)
Next Evaluation Report	6/1/2016	5/31/2016	5/31/2019	6/1/2016	3/31/2019
Current Term of Pilot Program Ends	12/31/2016	12/31/2016	12/31/2019	12/31/2016	No end date[8]
Date of Last Evaluation Order	9/24/2013	10/26/2012	9/25/2015	11/26/2014	11/26/2014

Staff has not attempted an in depth compilation or analysis of the data provided in the 2015 annual compliance reports. In many respects the data is not directly comparable across utilities.

[8] The Commission's December 1, 2015 Order in Docket No. G-022/M-15-855 states that GMG is required to operate its Gas Affordability Program as a pilot program until such time as the Commission determines the Program to be permanent.

However, the following is a brief summary and comparison of some of the key data provided by the companies.

Program Design

All of the gas affordability programs have an affordability component and an arrearage forgiveness component.

Affordability

The affordability component is designed to help make the GAP customer's current bill affordable by limiting the amount the customer pays each month for natural gas to a set percentage of the customer's household income, usually four or six percent.

The following table compares the terms of the affordability component for the different programs. This table also summarizes GMG's current program which is simpler and significantly smaller than the other programs. GMG's program will be more comparable to the data provided by other utilities in the 2016 annual report.

Affordability	Center Point	Xcel	MERC	Great Plains	GMG
Basis of benefit	The affordability component is a bill credit determined as one-twelfth of the difference between the utility's estimate of the qualified customer's annual natural gas bill and a percentage of the qualified customer's annual household income as provided by the qualified customer to the utility. Once enrolled in the program, any energy assistance monies not applied to past due bills are applied to the customer's current bills in accordance with LIHEAP program guidelines. The remaining balance is applied to future bills. Energy assistance is not considered part of household income in the calculation of the affordability credit.				The affordability component for GMG's GAP consists of a waiver of the monthly facility (i.e. customer) charge and is reviewed and administered quarterly.
% of Household	4%	4%	6%	4%	n/a
2015 Average Benefit	$460	$241	$376	$217	$102
2014 Average Benefit	$381	$264	$305	$180	$102
2013 Average Benefit	$327	$158	$482	$79	$102
2012 Average Benefit	$323	$145[9]	$489	$190	$102

Arrearage Forgiveness

The arrearage forgiveness component is designed to help the GAP customer retire past due natural gas bills that are in arrears over a one to two year period with monthly payments that are matched (dollar-for-dollar or better) by the company using money from the affordability program. The intent of the matching provision is to provide an incentive for customers to make regular monthly bill payments for the term of the payment plan while paying down past due gas bills.

The following table compares the terms of the arrearage forgiveness component for the different programs. This table also summarizes GMG's program which is simpler and smaller than the other programs. GMG's program will be more comparable to the data provided by other utilities in the 2016 annual report.

[9] In 2012 Xcel did not have the data to split between the affordability and arrearage forgiveness credit. The $145 in 2012 included both. The comparable number for 2013 is $186, which includes $158 for the affordability credit and $28 for the arrearage forgiveness credit.

Arrearage Forgiveness	CenterPoint	Xcel	MERC	Great Plains	GMG
Basis of benefit	The arrearage forgiveness component is a matching credit from the utility that is applied to an income qualified customer's account each month after receipt of the customer's scheduled arrears payment. The application of this monthly credit and customer payment retires pre-program arrears over a designated period of time. Energy assistance is not considered in the calculation of the forgiveness of pre-program arrears.				The arrearage forgiveness component for GMG's GAP consists of a one-time bill credit of $102.00 applied to customer's bill if the customer makes 12 consecutive, timely payments.
Repayment period for arrears	12 mos. - customer contributes no more than 2% of household income to retire pre-program arrears	Up to 24 mos	Up to 24 mos. (modified in 2012 - up to 24 mos. with arrears, and 12 mos. without arrears)	Up to 24 mos.	
2015 Average Benefit	$220	$30	$17	$58	$102
2014 Average Benefit	$266	$33	$7.31	$61	$102
2013 Average Benefit	$209	$28	$37	$43	$102
2012 Average Benefit	$251	$145[10]	$38	$44	$102

[10] Ibid. Footnote 3.

Total Affordability and Arrearage Forgiveness Credit

The following chart shows the amount of the affordability credit and arrearage forgiveness credit that the companies paid out in the 2015 program year.

CY-2015	CenterPoint	Xcel	MERC	GPNG	GMG
Affordability Credit	$5,217,797	$2,662,495	$749,477	$34,791	$2,040
Arrearage Forgiveness Credit	$1,148,981	$328,715	$33,684	$2,887	$1,632
Total (Excludes administrative and other costs)[11]	$6,366,778	$2,991,210	$783,161	$37,678	$3,672
Annual Program Budget	$5,000,000	$2,500,000	$750,000	$50,000	N/A[12]

GAP Participation Rates

To participate in a gas affordability program, the customer must be income qualified for LIHEAP (Low-Income Home Energy Assistance Program) and receive a LIHEAP grant. The GAP participation rate describes the percentage of LIHEAP customers that applied for, qualified and were enrolled in a GAP program during calendar-year 2015. The participation rate for each company is provided for 2015 and previous years for comparison.

GAP participation rates (% of LIHEAP customers that participated in GAP)	Center-Point	Xcel	MERC	GPNG	GMG
2015	34.1%	43%	13%	11.22%	41%
2014	34.5%	38%	15%	10.21%	12%
2013	44.8%	49%	8%	4.82%	22%
2012	28%	27%	8%	15.15%	n/a
2011	30%	45%[13]	9%	n/a	n/a
2010 (as reported in USG report)	27%	43%	12%	7%	n/a

GAP participation may provide some indication of the effectiveness of the Company's outreach efforts. However, these ratios do not address the underlying, related issue of participation in LIHEAP. Many factors including program design, LIHEAP outreach, and GAP outreach affect the level of GAP participation.

[11] Please see the table on p. 12 for actual program costs for CY 2015.
[12] GMG's GAP program changed in 2016 and now has a $20,000 per year annual budget.
[13] There was some confusion in 2011. The participation rate was originally reported as 80%. The correct Participation Rate was 45% as reflected in the chart above.

Disconnection Rates for GAP, LIHEAP-Non-GAP, and Non-LIHEAP Customers

The following table compares each company's disconnection rate for different categories of customers. It appears that the GAP program generally helps prevent disconnections. For all companies, the disconnection rate for GAP customers appears to be lower than it is for LIHEAP customers that do not participate in GAP. This may be due to the affordability component of the program, which limits the customer's current bill to a set percentage of income helping people to budget their household finances. Alternatively, it may be that the customers that are most likely to succeed with GAP assistance self-select into these programs. For example, customers that participate in GAP may be more likely to stick with a payment plan which would make it less likely for them to be disconnected. GMG addressed this issue in its filing and claims to not have an easily ascertainable means to provide this information.

Disconnection Rates	Center Point	Xcel	MERC	Great Plains
GAP				
2015	4%	5%	3.5%	7.82%
2014	5%	6%	2%	13.19%
2013	4.7%	5.0%	<1%	19.5%
2012	4.4%	5.0%	<1%	2.5%
2011	2.6%	4.0%	<1%	13.5%
2010	2.9%	4.0%	<1%	6.6%
LIHEAP - Non-GAP				
2015	10.2%	9%	8.5%	19.34%
2014	11.9%	11%	13%	28.6%
2013	9.1%	9%	<15%	23.9%
2012	8.7%	10.0%	11.0%	13.8%
2011	6.7%	9.0%	16.0%	Not available
2010	7.0%	10.0%	11.0%	14.9%
Non-LIHEAP (all firm including C&I)				
2015	3.8%	1%	2%	2.70%
2014	2.6%	1%	3%	3.88%
2013	3.8%	<1%	3%	3.9%
2012	3.4%	1.0%	2.0%	4.6%
2011	6.7%	1.0%	5.0%	6.4%
2010	3.5%	2.0%	4.0%	4.4%

GAP Retention Rates

Another broad measure of outcomes for these programs is the customer retention rate. The retention rate is the number of customers enrolled in a program at year-end divided by the number of customers that participated in that program during the year. The duration of the customer's enrollment in the program is not factored into the calculation of the retention rate. And, the rate is calculated as of December 31, which may or may not be the best date to use for estimating retention rates.

In any event, the customer retention rate (percentage) may be an indication of how well a program is designed for the population it serves. The retention rate may also be an indicator of how well each program's customer outreach, selection and enrollment process is working.

GAP Retention Rate 2015	Center Point	Xcel	MERC	Great Plains	GMG
GAP participants - enrolled at year-end	10,769	7,131	1,546	133	16
GAP participants - enrolled and receiving benefits at some time during the program year	13,964	11,041	1,993	174	27

GAP Retention Rate	Center Point	Xcel	MERC	Great Plains	GMG
2015	77%	65%	78%	76%	59%
2014	75%	64%	85%	66%	55%
2013	67%	50%	87%	35%	14%
2012	64%	64%	93%	64%	n/a
2011	73%	58%	79%	86%	n/a
2010	75%	48%	88%	85%	n/a

Annual Program Budgets

In one of the initial program authorizations, the Department raised a question about the basis for the size of proposed program. For example, was the annual budget amount proposed based on customer need or something else? It should be recognized that CenterPoint's program, the largest, was authorized with a $5 million per year budget. The $5 million budget was an amount agreed to by CenterPoint Energy and ECC and was proposed in a rate case settlement offer and is not an amount that was determined based on need. The budgets for the other programs were scaled proportionally to CenterPoint's budget. In 2015, CenterPoint, Xcel and MERC's actual Program costs exceeded the annual Program budget.

	CenterPoint	Xcel	MERC	Great Plains	GMG
Annual Program Budget	$5,000,000	$2,500,000	$750,000[14]	$50,000	$20,000
Actual Program Revenue (2015)	$5,052,215	$2,223,702	$975,650	$0	$0
Actual Program Cost (2015)	$6,563,530	$3,182,578	$927,210	$40,428	$2,800
GAP Tracker Balance as of December 31, 2015	$525,858	$499,977	$1,258,501	$21,876	($7,189)

GAP Tracker Balances

The following table compares GAP tracker balances as of December 31, 2012 through 2015.

	CenterPoint	Xcel	MERC	Great Plains	GMG
GAP Tracker Balance as of December 31, 2015	$525,858	$499,977	$1,258,501	$21,876	($7,189)
GAP Tracker Balance as of December 31, 2014	$2,037,172	$1,458,854	$1,106,456	$62,304	
GAP Tracker Balance as of December 31, 2013	$2,372,429	$2,039,989	$540,965	$94,599	
GAP Tracker Balance as of December 31, 2012	$1,292,574	$1,959,059	$80,499	$140,788	

CenterPoint

CenterPoint listed a number of conservation measures that it promotes to low-income households such as installing a programmable thermostat, installing a low-flow showerhead and faucet aerator, and weather stripping. The Company also offers no cost services such as a home energy audit, weatherization, furnace, boiler and water heater replacement, repair and tune-ups.

CenterPoint cross-promotes its GAP with its Conservation Improvement Program (CIP). In 2015, the Company sent 21,606 direct mail pieces to LIHEAP recipients encouraging customers to enroll in GAP. Each mailer included a GAP application, detailed energy efficiency tips, and information about CenterPoint Energy's rebate and other programs, including Home Energy

[14] In 2015, the Commission approved MERC's request to reduce its annual GAP budget from $1 million to $750,000.

Squad, Home Energy Audits, weatherization services, and faucet aerators. The Company also e-mailed 16,419 GAP solicitations with links to the GAP application.

Xcel

Xcel's program was last evaluated in 2012. The Commission ordered Xcel to reduce its $2.5 million tracker balance by approximately $1 million, over four years, through a combination of a reduced surcharge and increased expenditures for outreach. The combination was intended to allow the Company to increase program participation and benefits, while bringing the tracker balance and the surcharge more in line with what is reasonably required to administer the program. The Commission required the surcharge reduction and increased expenditures extend over the four year program.

As of January 1, 2013, the Company lowered the GAP surcharge rate from $0.00445 per therm to $0.00400 per therm. The Company provided the table below which shows the reduction in surcharge revenues as a result of lowering the surcharge to $0.00400 per therm compared to if the surcharge remained at $.0.00445 per therm.

Xcel Energy GAP Surcharge Revenue Impact of Lowering Surcharge Rate					
	Actual 2013	Actual 2014	Actual 2015	Total 2016[15]	Cumulative Forecast Total 2016
Revenue with Actual Rate $0.00400/thrm	$2,487,617	$2,711,471	$2,223,702	$2,303,967	$9,726,757
Revenue if Rate was $0.00445/thrm	$2,736,712	$3,016,735	$2,474,173	$2,563,172	$10,790,792
Reduction in Surcharge Revenues	$249,095	$305,264	$250,471	$259,205	$1,064,035

As shown in the table, in 2015, the Company saw a reduction to GAP surcharge revenues of approximately $250,471 due to the decreased surcharge rate, which directly impacted the tracker balance. In 2016, the Company is expecting to see a reduction in GAP surcharge revenues of approximately $259,205. Collecting at the reduced surcharge factor over four years has reduced

[15] Total 2016 numbers are a combination of actual revenues (Jan-Feb 2016) and forecasted revenues (Mar-Dec 2016).

the Tracker balance by $1,064,035. The Company is on track to meet the four year goal to reduce the Tracker balance by $1 million.

The Company also agreed to begin conducting additional outreach over the four year period to increase Program participation as a means to reduce the Tracker balance. The Company stated that in 2015, it reduced the tracker balance by $958,876 through the reduction of the surcharge and an increase in participation in the Program.

Xcel was authorized by the Commission to use excess Tracker funds in future Program years.[16] The Company's expenditures for affordability and arrearage forgiveness credits were $2,991,210 which directly benefited the GAP customers.

MERC

MERC continues to have a surplus of $1,258,501 in its GAP account. In Program year 2015, MERC collected $975,650 from its firm customers and spent $927,210. MERC has carried unspent dollars forward for four years in a row. To address this issue, the Commission Ordered[17] MERC to set its GAP surcharge to $0.00 effective October 1, 2015. The Commission also reduced the Program budget from $1 million to $750,000.

MERC's 2015 funding decreased by about $481,416 compared to 2014 funding. The decrease in funding can be attributed to two factors. First, the winter of 2015 was very mild and resulted in less natural gas usage. As the GAP is funded by a volumetric charge per therm of gas used, this resulted in lower customer collections. MERC stated that it continues to attribute a portion of its excess tracker balance to reduced and eliminated arrears among the longer-term Program participants. Second, the monthly surcharge was reduced to $0 as of October 1, 2015.

The Company noted that this trend began to slow at the end of 2015 and MERC enrolled a higher percentage of customers with an arrearage forgiveness component as part of their participation in GAP. MERC stated it expects that more arrearage forgiveness will occur in 2016 as it plans to promote the Program to customers with the highest arrears.

Great Plains

Great Plains' collected $0.00 from customers for GAP funding for the 2015 program year. The surcharge of $0.00 per dekatherm was set because Great Plains had a large tracker balance. Great Plains' tracker balance was almost double the Program's annual budget. The amount of overfunding was reduced from 2012, when the GAP balance was $140,788, to the 2013 GAP balance of $94,599. In 2014 and 2015 respectively the balance was further reduced to $62,304 and $21,876. Setting the GAP surcharge to $0.00 with the goal of reducing the tracker balance appears to be working to achieve the goal of the Commission.

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[16] Docket No. G002/GR-06-1429, January 20, 2012 Order.
[17] Docket No. G-011/M-15-539, September 25, 2015 Order.

Allocation of Cost Responsibility

	GAP rate - affordability surcharge ($/therm)	Annual cost for average residential customer who uses 900 therms of gas per year	Number of GAP participants	Customer classes assessed the GAP surcharge
CenterPoint	$0.00470	$4.23	13,964	All firm residential, commercial and industrial sales and transportation customers (except market-rate firm)
Xcel	$0.004000	$3.60	11,041	All firm sales customers
MERC	$0.00000[18]	$0.00	1,993	Collection of surcharge is currently suspended - All General Service, i.e. firm sales customers were previously charged for this program.
Great Plains	$0.00000	$0.00	174	Collection of surcharge is currently suspended - All firm residential and firm general service customers were previously charged for this program.
GMG[19]	$0.00000	$0.00	27	Collection of surcharge will not be proposed by GMG until after completion of the 2017 program year.

Although the budgets for these programs are roughly proportional to the size of each utility, as can be seen from the table above, the impact on a residential customer that uses 900 therms of gas each year, varies from one company to another. At the current affordability surcharge rates, the cost per year for a residential customer varies from $0.00 to $4.23 per year per residential customer.

[18] The monthly surcharge was reduced from $0.004410 to $0.00000 as of October 15, 2015

[19] GMG was authorized to establish a deferred account for all Program costs for review and recovery in GMG's next general rate case.

Program Administration, Effectiveness and Periodic Assessment of Third-Party Program Administrators

Staff generally believes the utilities are responsible for making these programs as effective and efficient as possible. In previous years staff has discussed some of the differences between programs that might help explain some of the apparent differences in effectiveness, efficiency and performance of these programs. In its September 22, 2010 Order, the Commission asked the Utility Stakeholder Group to comment, and, in response, the Utility Stakeholder Group stated that

> … the Group discussed the administrative tasks and processes used by each Company including: promotion, application processing, client interaction, process to calculate customer payment, renewal tasks, and data handling, among others. The overall conclusion of the Group was that the administrative tasks are similar whether they are performed internally or by a third-party administrator. Those companies using a third-party administrator have divided these administrative tasks differently depending on the unique billing processes, staffing capabilities, and scale of Program. The Group does not believe there is a single best model for completing these tasks. [USG Report, June 1, 2011, p. 13]

In the review of the 2011 compliance filings, there was an extensive discussion, about the cost and effectiveness of using third-party program administrators for these programs. In its December 29, 2011 *Order Accepting Gas Affordability Program Reports And Requiring Further Action*, the Commission directed the companies to periodically assess (a) whether their programs could be more effective and efficient by the use of a third-party administrator, and (b) if they already use a third-party to administer, whether this is the most effective and efficient arrangement, including a review of alternatives.

	CenterPoint	Xcel	MERC	Great Plains	GMG
Third-party program administrator	ECC/Center Point	ECC/ Xcel	Salvation Army - Heat Share/ MERC	Salvation Army	ECC

CenterPoint

CenterPoint uses Energy Cents Coalition (ECC) as its third party administrator. The GAP application is available on ECC's website. In addition, the Company promotes its own GAP. Efforts to increase awareness and promote the Program to eligible Customers in 2015 included:

- 21,606 direct mail pieces sent to LIHEAP recipients encouraging them to enroll in GAP.
- 16,419 e-mailed GAP solicitations including a link to the GAP application.
- Distributed Home Energy Reports to many low-income customers.
- Promoted no-cost, low-cost and mid-cost conservation measures available to GAP customers.

- Partnered with outside low-income agencies to promote the GAP.
- Attended outreach events such as Project Community Connect and the Energy Assistance Fair.

Xcel

Xcel also uses ECC as its third party administrator. To promote its Program, Xcel has a dedicated internal low-income coordinator group to increase awareness and participation. The Company does annual mailings and outreach to eligible households. The Company also attends community outreach events to promote its Program.

MERC

MERC has continued to build its strong partnership with the Salvation Army, which administers the Company's GAP and provides some basic but important additional services to MERC customers in need. MERC Call Center representatives continue to refer customers who have received Minnesota Energy Assistance benefits to the Salvation Army as appropriate for potential program enrollment. MERC and the Salvation Army coordinated several mailing campaigns in 2015, which produced some GAP enrollments. The Salvation Army has access to a variety of internal and external programs which it refers individuals to. The external agencies include: Second Harvest, Energy Assistance, County Emergency Assistance, Medical Clinics, the Social Security Administration, the Veterans Administration, Legal Services, Emergency Disaster Services, the Department of Housing and Urban Development, the Federal Emergency Management Agency, St. Vincent de Paul, the Minnesota Housing Authority, and the State's Weatherization Assistance Program. The Salvation Army also refers individuals to MERC's Conservation Improvement Program weatherization and 4U2 (limited income) programs.

Another program that is available through the Salvation Army is HeatShare, which is a state-wide fuel fund for customers who are ineligible for GAP. HeatShare offers direct assistance, budget counseling, and energy conservation education. In an effort to help low income households with the costs of heating, HeatShare works in conjunction with the Energy Assistance program on a statewide and local basis. The Salvation Army is very connected with the State of Minnesota programs and staff and is a part of the Minnesota Department of Commerce's LIHEAP Policy Advisory Committee and advocates on behalf of the national program. Additionally, the Salvation Army offers food assistance, rent assistance, medical clinics, seasonal and disaster assistance, and many other services for those in need.

MERC has continued to work very closely with the Salvation Army to assure that customers in need receive immediate assistance. The MERC Call Center representatives have continued to increase their referrals to GAP and the Salvation Army's other energy-assistance programs. Through additional training, support, and coaching, MERC's Call Center representatives have become more proactive in encouraging customers to act quickly on their need for assistance instead of waiting until their bill is too big for agencies to help and they are already in the collection process. The Salvation Army assisted about 148 MERC customers with funds from the HeatShare program in 2015, often after determining they were ineligible for GAP. About $41,000 was provided to this group of customers in 2015, an average of $277 per customer. The Salvation Army also referred about 250 GAP customers to other assistance programs, including food vouchers, rental assistance, budget counseling, and other Salvation Army services. In 2015, the Salvation Army fielded 1,350 calls for general, application, and enrollment questions. MERC continues to support the HeatShare fund by donating 50 cents for every dollar customers donate through their monthly gas bills. In 2015, MERC customers donated a total of $43,907 via monthly gas bills and direct donations and MERC provided $20,453 in matching funds to HeatShare for the on-bill donations.

Great Plains

GPNG signed an agreement with the Salvation Army (Roseville, MN) to administer its Program for 2015. The Salvation Army was chosen in an attempt to garner more interest in the Program and to take advantage of their expanded outreach capabilities. To date, the Salvation Army is processing all of the GAP applications in a timely manner, have posted the GAP application on their website and are promoting and fielding applications and calls regarding the 2015 Program year.

GMG

GMG continued to administer its Program internally in 2015 and partnered with the ECC beginning in the 2016 program year.

PUC Staff Comment

If the Commission has concerns about the design, effectiveness, management or performance of these programs, it may want to consider requiring an audit of these programs. Alternatively, it could require an audit as a supplement to the evaluation requirement for one or more of the individual pilot programs. The Commission has the authority, pursuant to Minn. Stat. § 216B.62, subd. 8, to initiate such audits which would be conducted with direction from the Commission but under the Department's supervision.

GAP Surcharge

In its Order reviewing the 2015 annual GAP reports, the Commission asked the Companies to address the issues of:

- Why Interruptible Sales and Transportation Customers are not assessed the GAP surcharge;
- A proposal evaluating cost allocation methods for its GAP; and
- A recalculated surcharge for various alternatives if Interruptible Sales and Transportation Customers were assessed the GAP surcharge.

CenterPoint

CenterPoint currently assesses the GAP surcharge to all firm customers, excluding market rate customers.[20] The Company reiterated its support for the continued exclusion of market rate customers from the GAP surcharge. The exclusion of market rate customers enhances CenterPoint's ability to compete for future firm market rate customers.

The Company stated that it does not currently assess the GAP surcharge to Interruptible Sales Customers because it is not authorized to do so. In its original proposal for a GAP the Company sought to assess the surcharge to residential customers only. The OAG objected and the Commission agreed to spread the costs of the GAP across all firm customers. The reasoning was that the plan was designed to reduce CenterPoint's costs (for example, bad debt expense, customer disconnection and reconnection expenses, etc.) and benefit society at large, so it would be appropriate to spread the costs over a broader section of ratepayers.

The Company stated that while it would be possible to require an even broader section of CPE's ratepayers to bear the costs of the GAP by also assessing Interruptible Sales and Transportation Customer's, the Company is not aware of any new information that would justify a change. The Program is available only to residential customers and the residential class of customers creates all of the costs of the Program and receives all of the benefits of the Program. There is no cost-based rationale to also assess the GAP surcharge in the Interruptible Sales and Transportation Customers.

The Company stated that if the Commission were to require Interruptible Customers to pay the GAP surcharge, the Company believes both sales and transportation customers should pay for the program to avoid the creation of an arbitrary financial incentive favoring one service over the other. The Company also reiterated its position that all Interruptible Sales and Transportation Customers on market rates should be excluded from paying the GAP surcharge.

The Company stated it has identified two options. The first option would allocate costs to all firm customers and Small Volume Dual Fuel Sales and Transportation customers, excluding all market rate customers. The second option would allocate costs to all firm customers, Small Volume Duel Fuel Sales and Transportation customers and Large Volume Duel Fuel Sales and Transportation customers excluding all market rate customers.

[20] According to CPE's Market Rate Service Rider: Available to any customer who either receives interruptible service or whose daily requirements exceed 500Therms and maintains or plans on acquiring the capability to switch to alternate energy supplies of service, except indigenous biomass energy, at comparable prices from a supplier not regulated by the Commission. Such customer is deemed to be subject to "effective competition."

The chart below represents the volumetric rates for each of CenterPoint's scenarios, including the current method:

GAP Allocation Method	GAP Rate $/Therm
All Firm Sales Service Customers (Current Method)	$0.00470
All Firm Sales Service + SVDF Sales & Transportation Customers	$0.00412
All Firm Sales Service + SVDF Sales & Transportation Customers + LVDF Sales & Transportation Customers	$0.00365

In the chart below, Company calculated the typical annual bill impacts (based on average use per customer, per year) and assuming Market Rate customers would be excluded from paying the GAP surcharge.

Rate Class	Customer Count	Average Annual Bill	All Firm (Current Method)	All Firm + SVDF Sales & Transport	All Firm + SVDF Sales & Transport + LVDF Sales & Transport
Residential	772,307	$628	$4.27	$3.74	$3.31
Comm A	28,961	$576	$3.59	$3.15	$2.79
Comm/Ind B	19,602	$1,771	$13.91	$12.21	$10.81
Comm/Ind C	18,783	$8,322	$70.67	$62.03	$54.90
Large Volume Firm – Sales Service	1	Trade Secret	$1,770.64	$1,554.15	$1,375.50
SVDF –A Sales Service	1,753	$18,424		$175.95	$155.73
SVDF- A Transport	184	$10,395		$309.87	$274.25
SVDF – B Sales Service	309	$59,841		$591.08	$523.14
SVDF – B Transport	76	$23,669		$831.94	$736.31
Large Volume DF – Sales Service	69	Trade Secret			$1758.97
Large Volume DF - Transport	137	Trade Secret			$3,309.36

The Company concluded that based on the relatively insignificant reduction for residential customer (less than one dollar per year, on average), the potentially large bill impacts for Interruptible Service customers, and the fact that such customers are not eligible for the GAP program, the Company believes the GAP costs are currently being recovered from the appropriate customer classes and does not believe a change is warranted.

Xcel

The Company stated its currently approved allocation method assigns GAP costs to all firm service customers except for the Large Firm Transportation and Negotiated Transportation Service customers. The costs are allocated to these classes based on sales. At the onset of the Program, the Company had initially proposed the same flat surcharge for all customers, including Interruptible Sales and Transportation customers. However, when parties advocated for a volumetric surcharge, the Company recommended excluding the Large Firm Transportation and Negotiated Transportation Service from the charge. Transportation Customers experience unusually high bill impacts when allocating program costs using the sales allocator (because the cost of gas is not included in Xcel's calculation of the bill impact.)

Historically, the Company has set Transportation and Interruptible Sales rates to be equal, with the exception of a slightly higher Transportation customer charge, so that the Company remains indifferent if the customer wants to purchase their gas supply from another party. Interruptible Sales and Transportation customers have alternative fuel sources, and therefore are market sensitive customers. Imposing a volumetric surcharge on these customers creates an incentive to switch to their alternate fuel.

The Company stated it would support the customer charge ratio allocation method (Alternative 2) as an alternative to the current method. In this method, fixed monthly surcharges are determined for all classes according to the ratio of corresponding customer charges as shown on Attachment D of Xcel's filing. This is the approach used to calculate the Company's Minnesota Electric Affordability Program surcharges. The Company supports this methodology as it provides moderate rate impacts for all customers while funding the program in a stable and predictable manner.

GAP costs could also be allocated to all customers based on the customer charge ratio (Alternative 1). The Company does not support this alternative because large volume interruptible and interruptible transportation customers would pay significantly higher charges under this alternative.

Class	**Average Annual Bill**	**Current Method (Volumetric)**	**Alternative 1 (Volumetric)**	**Alternative 2 (Customer Charge Ratio)**
		Firm Customers Sales Allocation	All Customers Sales Allocation	All Customers Customer Charge Allocation
Average Annual Affordability Surcharge				
Residential	$821	$3.68	$2.29	$4.59
Sm Commercial	$2,453	$12.05	$7.49	$12.75
Lg Commercial	$12,221	$65.26	$40.53	$25.49
Sm Demand-Billed	$56,125	$315.22	$195.76	$76.48
Lg Demand-Billed	$161,771	$958.56	$595.28	$140.21

Class	Average Annual Bill	Current Method (Volumetric)	Alternative 1 (Volumetric)	Alternative 2 (Customer Charge Ratio)
		Firm Customers Sales Allocation	All Customers Sales Allocation	All Customers Customer Charge Allocation
Average Annual Affordability Surcharge				
Sm Volume Interruptible	$55,073		$219.01	$73.93
Med Volume Interruptible	$348,952		$1,540.16	$152.95
Lg Volume Interruptible	$3,349,107		$14,939.31	$229.43
Lg Firm Transportation	$727,681		$56,316.24	$152.95
Med Interruptible	$180,390		$9,847.77	$165.70
Lg Interruptible Transportation	$396,151		$58,008.98	$242.17

MERC

MERC has not assessed its GAP surcharge against its Interruptible Sales and Transportation customers for a number of reasons. First, MERC's interruptible and transportation customers vary widely in their usage, even within a specific customer class. Like all other natural gas utility GAP surcharges, MERC's surcharge has been a per-therm charge. While use of a per-therm charge makes the GAP surcharge easy to administer, track, and adjust on a regular basis, application of such a per therm charge to MERC's largest interruptible and transport customers would result in MERC's highest volume users paying for the vast majority of Program costs. The benefits received through the Program by those large interruptible and transportation customers do not support those customers bearing such a significant cost burden. Additionally, many of MERC's large interruptible and transportation customers present a significant bypass threat and are extremely sensitive to rate increases. Once bypass occurs, it would be difficult to regain those customers and the result would be higher rates for all of MERC's remaining customers.

While alternatives to the historically used flat per-therm charge could be considered in order to allocate some portion of GAP costs to Interruptible and Transportation customers in line with the benefits they receive as a result of the Program, MERC's GAP surcharge is currently set to $0.00. At this time, the Company believes a continued surcharge of $0.00 is appropriate, regardless of the allocation methodology.

Great Plains Natural Gas

Great Plains stated that it is not currently assessing a surcharge to any customer class to fund its GAP. The GAP surcharge was set to $0.00 per dekatherm effective with service rendered on October 19, 2012 or after. Great Plains has indicated it is indifferent to allocation method at this time. Great Plains has proposed addressing this issue in its June 2016 evaluation report.

Department

The Department stated it does not agree with CenterPoint's argument that the residential customer class "creates all the costs of the program and receives all the benefits of the program." As CenterPoint noted, the Commission required GAP costs to be recovered from the utilities' firm customers, reasoning that, "Because the plan is designed to reduce CenterPoint's administrative costs and to benefit society at large, it is appropriate that the costs be borne by a broader section of CenterPoint's ratepayers, and of society at large."[21] System wide benefits are reflected in part in CenterPoint's data for 2015, which indicates that disconnection rates for GAP participants was much lower than for LIHEAP ratepayers who were not GAP participants.

The utilities did not provide a clear distinction between firm and interruptible customers that would justify treating the customer classes differently. All customer classes share in any benefits that may accrue from the GAP (such as reduction in bad debt expense and savings from reduced meter disconnections). Further, the extent to which interruptible customers are actually being interrupted is not a part of this record to date, but would be a relevant consideration to a discussion identifying a distinction between firm and interruptible customers for the purposes of GAP recovery.

The Department agreed that there is some merit in ensuring that any surcharge does not result in a perverse incentive to choose one rate class over another (i.e., incent customers to switch from sales to transportation customers in order to avoid the GAP surcharge) or to choose an alternate fuel source. However, there may be other rate design options (such as a hybrid rate design that would set a per-therm rate for firm customers and a flat rate for interruptible customers) that could be developed to mitigate those concerns.

The Department recommended that should the Commission wish to pursue this matter further, the Commission could require the utilities to provide additional information in next year's GAP annual reports to more fully develop the record. For instance, the Commission could require the utilities to provide:

- Historical data demonstrating the extent to which interruptible customers are interrupted, and
- Alternative rate designs that are intended to mitigate concerns regarding the GAP surcharge's impact on fuel selection and/or rate class.

[21] Docket No. G008/GR-05-1380, Commission's Order dated November 2, 2006.

Decision Alternatives

1. Gas Affordability Program (GAP) Annual Compliance Reports for Calendar-Year 2015

    a. Accept the calendar-year 2015 GAP annual compliance reports (all dockets), or

    b. Do not accept the calendar-year 2015 GAP annual compliance reports.

2. Allocation of GAP Surcharge

    a. Keep the current method of allocating responsibility for GAP program costs in place, or

    b. Change the allocation to a method of the Commission's choice.

3. GAP surcharge

    a. Require the Companies to submit additional information on possible alternatives for allocating responsibility for GAP cost recovery through the GAP surcharge in the next annual GAP reports, or

    b. Do not require the Companies to submit additional information on possible alternatives for allocating the GAP surcharge in the next annual reports.