Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014 .... *Agenda Item # **4**

Company: Great Plains Natural Gas (GPNG) Company

Docket No. G-004/M-07-1235

In the Matter of the Petition by Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for Approval of a Gas Affordability Service Program

Issue: Great Plains Natural Gas Company's evaluation of its Gas Affordability Program and proposal to discontinue its Gas Affordability Program

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Relevant Documents

GPNG - Gas Affordability Program Evaluation ....June 2, 2014
Department of Commerce - Comments...July 30, 2014
GPNG - Reply Comments .... August 11, 2014

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October 22, 2014

Statement of the Issue

Should the Commission approve Great Plains Natural Gas' request to discontinue its low income Gas Affordability Program?

Introduction

Great Plains Natural Gas's (GPNG's) Gas Affordability Program (GAP) was initially approved in a Commission Order issued on May 12, 2008, in this docket. GPNG's Program has an annual budget of $50,000. The Company's Program was evaluated in 2012 and extended for two years. However, due to underutilization, GNPG's GAP surcharge was suspended in 2012. As of April 30, 2014, GPNG's GAP tracker account had a positive balance (surplus) of $86,048.46.

The Company filed its second GAP evaluation in compliance with the Commission's October 15, 2012 Order, also in this docket. This evaluation is intended to address the objectives a GAP must meet under the low income affordability program statute and GPNG's tariff. The Program is due to expire on December 31, 2014, unless the Commission reauthorizes and extends the Program.

The Company has requested termination of the Program based on its evaluation. The Department of Commerce recommended the Company continue its Program at least until the funds in the Company's GAP tracker balance are used up. Great Plains agreed to the Department's recommendation and said that it would continue looking for an alternative third-party administrator for its Program.

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

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.

Minn. Stat. § 216B.16, Subd. 15(b) provides that: Any affordability program the commission orders a utility to implement must:

(1) Lower the percentage of income that participating low-income households devote to energy bills;
(2) Increase participating customer payments over time by increasing the frequency of payments;
(3) Decrease or eliminate participating customer arrears;
(4) Lower the utility costs associated with customer account collection activities; and
(5) Coordinate the program with other available low-income bill payment assistance and conservation resources.

In addition, Minn. Stat. § 216B.16, Subd. 15(c) states: In ordering affordability programs, the Commission may require public utilities to file program evaluations that measure the effect of the affordability program on:

(1) the percentage of income that participating households devote to energy bills;
(2) service disconnections; and
(3) frequency of customer payments, utility collection costs, arrearages, and bad debt.

(Please see Attachment A for a copy of the statute.)

Background

June 2, 2014: Great Plains filed its Gas Affordability Program (GAP) evaluation for the 2011, 2012 & 2013 program years. The Company has requested to eliminate its GAP because Great Plains does not believe its Program has proven to be effective from a ratepayer perspective.

July 30, 2014: The Department submitted comments on GPNG's filing and requested that the Company provide more detail on the costs included in GAP administrative costs, and any changes it could make to encourage GAP participation. The Department recommended that the Commission require the Company to continue its GAP at least until the tracker balance is depleted.

August 11, 2014: The Company submitted reply comments in response to the Department's request for more information. The Company provided an additional schedule adding more detail to its administrative costs. The Company stated that it is currently researching alternative third party administrators to replace its current administrator, Central MN Communities Action, Inc.

Great Plains' GAP is available to qualified residential customers who qualify for assistance from the Low Income Home Energy Assistance Program (LIHEAP), and agree to be placed on a levelized payment plan with a reasonable payment schedule. The Program consists of two components: (1) an affordability component providing a bill credit equal to one-twelfth of the difference between the customer's estimated annual gas bill, and four percent of the customer's household income; and (2) an arrearage forgiveness component which provides a monthly credit to match a customer's contribution to retiring past due balances.

Party Positions

Great Plains Natural Gas (GPNG)

The Company stated the Commission has a reasonable basis to terminate the Program for the following reasons:

1.) A GAP in GPNG's service area is no longer in the public interest as intended by Minn. Stat. § 216B.16, Subd. 15.

2.) GPNG's GAP has not proven to be effective from a ratepayer perspective.

3.) GPNG's GAP has been significantly underutilized by eligible participants.

As an alternative, the Company suggested that the Program could be continued until the GAP tracker balance of $86,048 is disbursed to income-qualified customers and then discontinued.

The Company provided an annual update of the Program over the last three years since its Program was last reviewed by the Commission.

Highlights of the 2011 Program Year:

- The income threshold governing the ability of the Customer to pay was reduced from six to four percent of household income.
- West Central Minnesota Community Action was hired by the Company to serve as third party administrator.
- An extensive public outreach campaign was undertaken to increase participation.
- The number of applications received increased 83% over 2010 applications. The Company received 502 applications.
- The increase in applications for the Program was mostly due to GPNG direct mailing Customers. The Company is able to track the source of the application through an internal coding system.
- A 46% increase in Customers qualifying for GAP, attributable to the lower household income threshold. This was an increase of 77 Customers qualifying for the Program.
- The number of Customers who qualified for and elected to participate in the Program was 170. This number was significantly fewer than the number of applications filed.

Highlights of the 2012 Program Year:

- The GAP surcharge was reduced by Commission Order from $0.02034 to $0.00000 per Dk beginning in October 2012 to reduce the GAP tracker balance.
- The Company received 449 applications. Most applications received were attributable to the Company's direct mailing efforts.
- The number of Customers who qualified for and elected to participate in the Program was 284. This number was significantly fewer than the number of applications filed.

Highlights of the 2013 Program Year:

- Company received 389 applications. Most attributable to the Company's direct mailing efforts.

- The number of Customers qualifying for and electing to participate in the Program was significantly fewer than the number of applications filed, 95 Customer's qualified, 82 Customer's participated.

- The Company coordinated with other low-income agencies, in addition to West Central, to provide GAP information when applying for heating assistance.

- West Central experienced staffing concerns and GPNG took application processing in-house. West Central continued to promote the Program.

- Great Plains attributes the reduction in the number of Customers qualifying for the Program to reduced gas prices and a reduction in the number of customers applying for and receiving heating assistance.

- Customer arrears balances were down significantly and offset by benefits received from LIHEAP.

In the first three months of the 2014 program year, Great Plains had enrolled 139 customers and as of March 31, dispensed a total of $6,003.45 in bill credits and arrearage forgiveness to Great Plains' customers. The funds disbursed in the first three months of the Program year 2014 already exceed the funds disbursed for the entire 2013 program year. Although program year 2014 is demonstrating greater participation over 2013, the Company believes the net cost to ratepayers along with the administrative burden of running the Program does not justify continuing the GAP in 2015.

The Company requested the Commission:

1.) Allow Great Plains to discontinue the GAP pilot after completion of the 2014 program year due to the underutilization of the Program and the cost to ratepayers.
2.) Allow the utility to refund the remaining GAP funds through an adjustment to its purchased gas rider.
3.) If the Commission determines that Great Plains must continue its Program, the Company requests the Commission allow Great Plains to propose changes to the current program and continue the Program without reinstating the GAP surcharge until the balance in the GAP tracker account is depleted.

Department of Commerce (Department)

The Department analyzed the Company's evaluation of its GAP and noted the declining participation from 2012 to 2013 despite the Company's outreach efforts and reducing the income threshold from six to four percent. According to the Company, participation in LIHEAP also decreased nine percent in 2013. Great Plains attributes some of the decline in participation to reduced gas prices affecting the number of customers who qualified for the Program.

The Company provided information on the payment frequency and disconnection rates for a random sampling of GAP participants. According to the Department, the numbers shown in the table below indicate that the Company's GAP is generally meeting the legislative goals for an affordability program.

Summary of Payment Frequency and Disconnection Rates

	2011	2012	2013
Late Payment Frequency (% increase):			
GAP Participants	2%	1%	2%
Other LIHEAP	37%	14%	24%
Disconnection Rate (% of total disconnected):			
GAP Participants	1.8%	0.6%	19.5%
Other LIHEAP	24.5%	13.7%	23.9%
Average Arrears:			
GAP	$0	$3.00	$0
Other LIHEAP	$46.53	$31.27	$8.54

The Department acknowledged that Great Plains' Gap has been underutilized and that the costs to ratepayers over the last three years have outweighed the benefits as shown in the table below. In response to the Department's request for more detail, the Company stated that the internal administrative costs were not charged to the GAP tracker, but were included in the financial evaluation. The Company noted that even if the internal administrative costs were removed from the financial evaluation, a net cost to ratepayers would remain.

Summary of GAP Costs and Savings

	2011	2012	2013
GAP Costs:			
Affordability Component	$16,228	$44,155	$2,366
Arrearage Forgiveness	$3,246	$5,296	$2,822
Administrative Costs – Internal	$12,889	$13,132	$13,391
Administrative Costs – 3rd Party	$2,500	$2,500	$2,500
Total GAP Costs	$34,864	$65,083	$21,079
GAP Savings:			
Write-offs	$1,094	$1,635	$236
Service Disconnection/Reconnection	$520	$2,704	$312
Collection Activities	$2,180	$3,608	$1,248
Total GAP Savings	$3,794	$7,947	$1,796
Net Cost to Ratepayers	$31,070	$57,135	$19,283

Average Benefit per Customer

Year	2011	2012	2013
# of Participants	170	284	82
Total Amount Expended (from table above)	$19,475	$49,451	$5,188
Avg. Total Benefit per Customer (from table above)	$114.56	$174.12	$63.27

One of the Department's concerns was with the size of Great Plains' administrative costs compared to the amount of benefits received by GAP customers. Although these costs are not being recovered in the GAP tracker, they remain costs to the Company. The annual average internal administrative cost per GAP Customer is shown in the table below. As shown by the calculation, the greater the number of GAP participants, the lower the average cost per GAP customer.

Annual Internal Administrative Cost per GAP Customer

Year	2011	2012	2013
# of GAP Participants	170	284	82
Administrative Costs - Internal[1]	$12,889.25	$13,131.50	$13,390.75
Internal Cost per GAP Customer @ 425 Hours[2]	$75.82	$46.24	$163.30

[1] Internal administrative costs include $407.00 annually for printing and mailing of GAP materials promoting the Program. The cost paid to the third part administrator is not included in the numbers.
[2] GPNG charges internal administrative costs to the Program at a rate of approximately $150 per hour in the Winter and approximately $300 per hour in the Summer.

Great Plains Natural Gas – Reply Comments
The Company is currently investigating an alternative third party provider to assist with outreach and program management. Great Plains' current third party vendor has expressed concerns with their ability to aggressively promote and manage the program given its current staffing levels and the time needed to process the LIHEAP applications simultaneously. The Company stated that a renewed focus from a different third party administrator may improve participation.

The Company stated that it believes the evaluation supports discontinuation of the Program. The Company additionally stated it does not disagree with the Department's recommendation that the Program be continued until the existing tracker balance is used up. In the interim, the Company stated that it will continue its discussions with potential third party administrators.

Staff Analysis

The periodic evaluation of the GAP uses the criteria from Minn. Stat. § 216B.16, Subd. 15(b) & Subd. 15(c) as a benchmark for the performance of the Program. Minn. Stat. § 216B.16, Subd. 15(b) provides that: Any affordability program the commission orders a utility to implement must:

(1) Lower the percentage of income that participating low-income households devote to energy bills.

The Commission ordered GPNG to lower the income threshold to qualify for the affordability component of the Program from 6 percent to 4 percent. The lower percentage of household income devoted to energy costs effectively meets the objective.

(2) Increase participating customer payments over time by increasing the frequency of payments.

The Company looked at a random sample of ten percent of the 82 Customers enrolled in GAP in 2013. The random sample of 10 Customers was compared to a random sample of the same number of Customers qualifying for LIHEAP, but not participating in the GAP. The results indicated that the number of payment occurrences as a percentage of bills issued for the GAP participant group was 52 percent. In contrast, the number of payment occurrences as a percent of bills issued for the LIHEAP group not participating in GAP was 43 percent for the same time period. It appears that GAP provides a benefit of increasing customer payments over time.

(3) Decrease or eliminate participating customer arrears.

Based on the sample data, none of the 2013 GAP participants were in arrears as of December 2013 as compared to average arrears per account as of December 2013 for all other customers at $103. LIHEAP customers in the 2012-2013 season not participating in GAP had an average outstanding debt of $121 as of December 31, 2013. The results indicate a benefit associated with GAP.

(4) Lower the utility costs associated with customer account collection activities.

The Company did not address this criteria specifically. The Company did provide that the disconnection rate for GAP Customers was 19.51 percent, compared to the LIHEAP non-GAP Customers disconnection rate of 23.89 percent and all firm customers disconnection rate of 3.87 percent. It could be concluded from the percentages that participation in GAP reduces collection activities.

(5) Coordinate the program with other available low-income bill payment assistance and conservation resources.

Great Plains regularly coordinates with the following agencies providing bill payment assistance in the Great Plains service area.

- Tri-Valley Opportunity Council, Inc.
- West Central Minnesota Communities Actions, Inc.
- Prairie Five Community Action Council, Inc.
- Western Community Action Partnership
- Mahube-Otwa Community Action Partnership, Inc.
- Renville County Energy Assistance Program

As noted above, Great Plains entered into an agreement with West Central to serve as the third-party administrator of its GAP beginning in 2011. West Central is continuing to serve as the third-party administrator in 2014. Great Plains also continued to work with each of the other agencies providing assistance in its service territory to ensure customers are aware of the GAP by advising the agencies of the availability of the program via written and oral communication and providing GAP application forms to the agencies to provide to Great Plains customers. Such applications are submitted to West Central, who is also coordinating with Great Plains and the various agencies. Great Plains believes that the coordination with these agencies has increased awareness of and interest in the GAP.

All of the gas utilities have filed programs with the Commission and the Commission has approved all of the programs as pilots subject to evaluation. It is unclear to staff whether the language in the statute requires the Commission to approve and utilities to continue offering these program after they have been approved as pilots for a certain period of time. Nevertheless, staff believes the intent of the statute is clearly that all natural gas utilities subject to section 16 of Ch. 216B should offer their low-income residential customers an affordability program as a supplement to the grants provided by the federal low-income home energy assistance program (LIHEAP).

Staff does not believe the statute requires a finding of a positive cost-benefit relationship for these programs to be in the public interest. If there were a positive net benefit, staff does not believe the legislature would have had to enact a law to require utilities to offer these programs. Nevertheless, staff believes the programs should be run efficiently and administered such that they meet the goals of the statute, e.g. the program should lower the utility's bad debt expense and lower the costs associated with customer account collection activities.

The Company's Pilot Gas Affordability Program has been in effect since 2009. Since inception of the Program, the number of customers participating was fairly constant the first two years and then increased for two years through 2012. Participation dropped significantly in 2013 and it appears to be on an upward trend in 2014. The 2014 enrollment numbers are encouraging but are current only through the first three months of 2014.

Program Year	2009	2010	2011	2012	2013	2014
# of Participants	94	91	170	284	82	139

If the Commission requires GPNG to continue offering its pilot program, it may want to ask the Company for a status report at the Commission's October 30th meeting and a full report on the following information in GPNG's next annual GAP report:

- an update on the number of Customers currently enrolled in the 2014 GAP year.
- an update about its negotiations with alternative third party administrators for the Program and the associated costs.
- what other outreach methods could/or has the Company employed to increase participation in the Program?

With respect to Great Plains comment that it is exploring alternatives with potential third party vendors and the Department's request for comments on possible changes to the Program that would encourage more participation, staff believes the Commission may want to consider whether the low-income affordability program statute would permit Great Plains to completely outsource its low-income affordability program (including funding) to another entity such as a community action program (CAP) agency or the Salvation Army.

Decision Alternatives

1.) Allow Great Plains to discontinue the GAP pilot after completion of the 2014 program year and refund the remaining GAP funds through an adjustment to its purchased gas adjustment (PGA) rider.

2.) Require Great Plains to continue its GAP program until its GAP tracker balance is depleted. Require Great Plains to continue to file annual GAP compliance reports by March 31st of each year and when its GAP tracker balance is depleted. Allow Great Plains to propose changes to the current program.

3.) Require Great Plains to continue its GAP Program as a pilot for an additional time period which the Commission deems appropriate (for example, two, three or four years). Require Great Plains to file an evaluation report by June 1st in the year the pilot program is due to expire, for example, June 1, 2016; June 1, 2017 or June 1, 2018. Require Great Plains to continue to file annual GAP compliance reports by March 31st of each year. Allow Great Plains to propose changes to the current program.

4.) If the Commission requires GPNG to continue its pilot program, it may want to ask the Company for a full report on the following in its next annual report on March 31, 2015:

- an update on the number of Customers enrolled and participating in the Program,
- an update about GPNG's negotiations with potential alternative administrators for the Program and the associated benefits and costs, and
- other outreach methods that could/or have been employed by the Company to increase participation in the Program, and
- any other issues or concerns (as directed by the Commission).

5.) Require Great Plains to submit revised tariff sheets that reflect the Commission's decision in this docket within ten days of the Commission issuing its order.

Staff Recommendation

Staff makes no recommendation at this time.