G-008/CI-94-675 ORDER ADOPTING PILOT PROGRAM AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of a Low-Income Residential Pilot Program for Minnegasco

ISSUE DATE: December 2, 1994

DOCKET NO. G-008/CI-94-675

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PROCEDURAL HISTORY

In 1994, the Minnesota legislature added subdivision 15 to Minn. Stat. § 216B.16. The new statutory subdivision requires the Commission to order a pilot low-income residential rate program for at least one utility, to be implemented by January 1, 1995.

On August 2, 1994, the Commission issued its ORDER SELECTING MINNEGASCO FOR A PILOT PROGRAM AND REQUIRING EXPEDITIOUS COLLABORATIVE ACTION. In that Order the Commission selected Minnegasco to implement a low-income residential pilot program. The Order stated that Commission Staff would design a proposed pilot program for Commission review and approval. The Commission ordered Minnegasco, Northern States Power Company (NSP), the Department of Public Service (the Department), the Residential Utilities Division of the Office of the Attorney General (RUD-OAG), and other interested parties to work in a collaborative process, under the direction of Commission Staff, to assist Staff in designing a proposed pilot program.

In August and September, 1994, Commission Staff held a series of meetings with a work group comprised of low-income utility customers, Energy CENTS, Community Action Program (CAP) agencies, HeatShare, St. Paul Neighborhood Energy Consortium, the Minnesota Department of Economic Security, the Department, the RUD-OAG, NSP, and Minnegasco. The work group focused on low-income discount proposals by Energy CENTS and Minnegasco, as well as a wide range of issues touching on low-income discounts.

Following the close of the collaborative meetings, written comments were submitted by HeatShare, Ms. Cyd Holland, Minnegasco, the Department, and Energy CENTS. Energy CENTS' comments were signed and supported by two low-income utility customers, Tri-CAP, the Department of Economic Security, the Minnesota Senior Federation--Metro Region, the Suburban Alliance, the Minnesota Community Action Association, and the St. Paul Neighborhood Energy Consortium.

The Staff proposal for Minnegasco's pilot low-income program came before the Commission for consideration on November 10, 1994.

FINDINGS AND CONCLUSIONS

I. INTRODUCTION

Members of the collaborative work group worked intensively to share their insights and expertise during the series of meetings on the low-income pilot program. The Commission appreciates the dedication and hard work of the collaborative work group. The group's input was invaluable in developing a pilot program for Minnegasco.

Under the August 2, 1994, Order, the Commission Staff is responsible for the final design and presentation of the Minnegasco program. In this Order the Commission will present and analyze in turn the major features of Minnegasco's pilot low-income program.

II. FORM OF THE LOW-INCOME RATE

A. The Type of Rate Discount

1. Comments of the Parties

Six major types of low-income rates have emerged in various low-income programs. The rate types range from the straight discount model, in which all eligible customers receive the same discount, to the available resource approach, in which a participant's financial resources are subject to budget analysis before a payment amount is determined.

Both Energy CENTS and Minnegasco proposed a straight rate discount for the pilot program. Minnegasco noted the ease of administration, and the fact that no "personal" information need be gathered from the participant.

2. Commission Action

For the pilot low-income program, the Commission will apply the straight discount approach. This method is straightforward and relatively inexpensive to apply.

For future low-income programs, the Commission will consider other rate methods, including the targeted discount approach. A targeted discount, in which the discount rate varies with the level of income, may provide greater assurance that the level of need is matched with the level of assistance. The targeted discount approach could be tied with data from Minnesota's Low-Income Home Energy Assistance Program (LIHEAP), a program which bases energy assistance grants on tiers of income expressed as percentages of the federal poverty level.

B. The Size of the Rate Discount

1. Comments of the Parties

The final proposals from Energy CENTS and Minnegasco called for the application of a 30 percent discount.

Minnegasco calculated the percentage of an average participant's income required for gas service after a discount and the Energy Assistance grant are applied. A 30 percent discount would result in gas payments of approximately four percent of monthly income for a one-person household and approximately two percent of monthly income for a four-person household. These percentages were similar to the percentage range which Energy CENTS found appropriate for low-income customers.

2. Commission Action

The Commission finds that a 30 percent discount is an appropriate level for the low-income pilot program. This percentage discount lowers the annual gas bills of the participants to a level that approximates that of the average customer. This is a reasonable level for a pilot program meant to study the effects of discounted rates on low-income customers.

III. ARREARAGE MECHANISM

A. Comments of the Parties

Energy CENTS advocated an arrearage forgiveness mechanism as part of the pilot program. Energy CENTS noted that an arrearage forgiveness program it had previously developed with

Minnegasco resulted in the Company's receiving approximately $99 per customer for every $73 forgiven.[1]

Minnegasco opposed the inclusion of an arrearage forgiveness mechanism in the pilot program. Minnegasco argued that a forgiveness policy might increase write-offs for accounts that might otherwise be collectible, preclude evaluation of the program's impact on arrearages, and increase program costs.

HeatShare opposed the concept of an arrearage forgiveness factor in the pilot program because of the probable increase in program costs.

B. Commission Action

The Commission agrees with Energy CENTS that an arrearage forgiveness mechanism may make utility payments seem less insurmountable to low-income utility customers and may encourage the timely payment of current bills.

The Commission notes, however, that the new statute obliges the Commission to evaluate and report on the pilot program. For this reason, the Commission is concerned with the effect of

[1] The Commission notes that Minnegasco did not seek approval for the arrearage forgiveness program (which was offered from April to September, 1994), nor did it file tariff pages reflecting the discount.

The Commission directs Minnegasco in the future to make necessary filings seeking approval of tariff changes and reflecting the tariff changes. The Commission will also require Minnegasco to file a report with the Commission describing its previous arrearage forgiveness program in detail and providing an evaluation of the costs, effectiveness, and overall results of the program.

an arrearage forgiveness mechanism on its ability to evaluate the program's impact on arrearages.

The Commission will therefore not include an arrearage forgiveness concept in Minnegasco's low-income pilot program. The Commission will, however, consider the inclusion of an arrearage forgiveness mechanism in future low-income rate programs. In its analysis of future forgiveness proposals, the Commission will consider at least the following issues which impact on any forgiveness mechanism:

1. The existence of weatherization grants, furnace replacement programs and energy education to address the consumption of energy.

2. The definition of arrearage, such as a balance over 60 or 90 days old, or a specific dollar amount.

3. The possibility of the arrearage expressed as the balance on a specific date (e.g. September 30), which would preferably be before the start of the heating season.

4. The idea of a household obligation to contribute toward the pre-program arrearage, in an amount low enough that the customer would not be prevented from making current payments as well.

IV. PROGRAM ELIGIBILITY

A. Comments of the Parties

In its final proposal, Energy CENTS agreed with Minnegasco that participation in the pilot program should be limited to customers receiving Energy Assistance Program (EAP) grants. A disagreement remained about the number of customers receiving EAP grants who would be allowed to participate in the pilot program.

Energy CENTS argued that the pilot program should be open to all 26,000 Minnegasco customers receiving EAP grants. According to Energy CENTS, 100% eligibility would best fulfill the statutory mandate that low-income discount programs ensure "affordable, reliable, and continuous service to low-income ratepayers." Energy CENTS argued that EAP grant recipients are a diverse group--no subgroup can be excluded without discrimination. Eligibility for 100% of EAP grant recipients would avoid the undesirable situation in which EAP grant recipients not selected for the pilot program would help pay program costs for the EAP grant recipients who were selected. Finally, Energy CENTS argued that a separate control group is not necessary because payment and arrearage patterns before and after implementation of the program can be compared.

Minnegasco proposed that one half of the 26,000 Minnegasco customers receiving EAP grants participate in the pilot program, with the remaining one half of EAP grant recipients serving as a control group. Minnegasco stated, and the Department agreed, that a control group is necessary to measure the effects of such factors as weather and federal funding.

HeatShare stated that inclusion of all 26,000 EAP grant recipients would be contrary to the concept of a pilot program.

B. Commission Action

The Commission agrees with Minnegasco and Energy CENTS that eligibility for the pilot program should be based upon participation in EAP. Particularly for a pilot program, this method has the advantage of allowing program eligibility to rest on existing agency guidelines.

The Commission notes that only about 40 percent of those eligible for EAP grants choose to participate in that program. As a result, many persons who are eligible to participate in the pilot program based upon income criteria will not be eligible due to nonparticipation in EAP. The

Commission will therefore direct Minnegasco to work with Commission Staff, Energy CENTS, and any other interested parties to develop a proposal for extending future program eligibility beyond EAP participation.

Although the Commission understands Energy CENTS' desire to extend the pilot program as widely as possible by including all 26,000 EAP participants, such a structure would be incompatible with the concept of a pilot program. By its very nature, a pilot program should be small, flexible, and relatively easy to implement and evaluate. The concept of pilot project also means that less than all possible participants will be included, without raising issues of unreasonable discrimination. A control group is necessary for any meaningful evaluation of the experimental discount.

For these reasons, the Commission must select a number within the possible number of EAP participants to participate in the Minnegasco pilot low-income program. The Commission will limit participation in the pilot program to 3,000, because this number is large enough to be statistically significant yet small enough to allow ease of administration and implementation. Limiting initial participation to 3,000 should minimize customer confusion and any financial impact on nonparticipating low-income customers. Selection of 3,000 program participants will allow the pilot to include the necessary control group.

V. PROGRAM COSTS

A. Comments of the Parties

The cost of a low-income discount pilot program of 3,000 participants would be $603,000 ($670 average bill X 30% discount X 3,000).

Minnegasco stated that it could not calculate estimated cost savings because it does not gather data on collection costs at this time. Energy CENTS provided an estimate of cost savings based upon the experience of another utility, without explaining any basis for comparability between the two situations. Because this is the only data upon which to base estimated cost savings at this time, the level of projected savings remains speculative.

Minnegasco based its proposed cost recovery methods upon the provisions of the new statutory subdivision, which reads in part:

> The commission...shall allow a utility required to implement a pilot project to recover the net costs of the project in the utility's rates.
>
> [The Commission's report to the legislature shall include] the ability of the utility to recover the costs of the low-income program without a general rate change.

Based upon its reading of the new statute, Minnegasco argued that the legislature intended the utility's cost recovery to be concurrent with the implementation of the discount. Minnegasco advocated cost recovery through a surcharge equal to the net cost of the discount, subject to a true-up mechanism. As an alternative, Minnegasco suggested that the costs be recovered through the PGA true-up. Minnegasco felt that deferral of costs to a future rate case would increase costs due to the application of carrying costs. Minnegasco recommended that any cost recovery mechanism be applied to the residential customer class, because this is the class which benefits from the pilot program.

The Department favored recovery of program costs through an extraordinary rate adjustment outside of the normal rate case procedure. Program costs would be tracked for a year, after which two surcharges would be assessed, one on a going-forward basis to recover future costs and one on a retrospective basis to recover the first year's costs.

The Department argued that costs should be recovered from all firm customers. This approach would spread costs fairly widely while avoiding the competitive disadvantage which would fall to Minnegasco if costs were recovered from non-firm commercial and industrial customers. According to the Department, recovery from all firm customers would be preferable to recovery from only residential customers because the latter approach would overly burden residential customers (particularly low-income customers) who are not participating in the pilot program.

Energy CENTS supported the Department's view on cost recovery.

B. Commission Action

Costs of a low-income discount program are not within the parameters of costs eligible for PGA recovery under statute or rule. The Commission finds that cost recovery through the PGA is not a viable option.

Because Minnegasco's and the Department's proposed surcharge mechanisms would take place outside of rate cases, they raise issues of adequate notice and opportunity to be heard.

The Commission notes that Minnegasco has indicated that it will probably file a rate case in 1995. The Commission finds that the costs of the pilot low-income program should be deferred for analysis in Minnegasco's next rate case, with carrying costs applied to the deferral balance at the Company's current overall rate of return. This method has the advantage of capturing exact costs after they have been incurred. Deferral also allows the Commission to examine the prudence and reasonableness of the costs in the context of a general rate case proceeding. The method does not raise issues of proper notice and opportunity for comment. In the Company's next general rate case, all rate design issues such as the proper customer class or classes to be assessed and the basis of the recovery (that is, by a per capita or volumetric approach) will be decided.

VI. MISCELLANEOUS ISSUES

Selection of Participants. Participants will be selected at random and will be allocated among the CAP agencies in proportion to the distribution of clients served by the various agencies.

Annual Recertification. Because EAP has an annual 40% turnover rate, the pilot program will require that participants be recertified annually and that they be receiving an EAP grant each year.

Customers Who Fall in Arrears. Customers who fall in arrears while receiving the low-income discount will continue to receive the discount but will be subject to the normal Minnegasco collection practices.

Education and Conservation. The low-income discount does not provide an incentive for energy conservation. Minnegasco proposed that participants must cooperate in an energy education and assessment visit conducted by the utility.

The Commission agrees that energy conservation should be considered a factor in the low-income rate plan. The Commission will require Minnegasco to submit a proposal for the energy education and assessment visits in a compliance filing.

A Discount Budget Plan. Minnegasco recommended that participants be required to receive their bills on a discount budget plan.

The Commission finds that a budget alternative should be available on a voluntary basis to program participants. Participants should be allowed to use the discount and their EAP grants to pay their bills in the manner which is most effective for them.

Program Sunset. The new legislation does not provide a sunset for any low-income discount pilot program. The Commission will require that Minnegasco's pilot program end on June 30, 1998, unless the Commission by further Order extends or otherwise modifies the sunset date. This time frame should be sufficient to allow a true test of the program, while allowing an overall evaluation and report to the Commission within a reasonable period.

Evaluation of the Program. The new low-income rate legislation requires that the Commission, the Commissioner of the Department, and the Commissioner of Economic Security submit a report to the legislature by January 1, 1998.

To allow evaluation and possible adjustment of the program as it is implemented, the Commission will require Minnegasco to submit an interim report and a final report. The interim report should cover calendar year 1995 and should be filed April 15, 1996. The final report should cover the period from January 1, 1995, to June 30, 1997, and should be filed September 30, 1997.

As an essential part of the evaluation process, the Commission must develop an overarching concept of the goals, philosophy, and criteria for success of the program. The Commission will require the Company to file its concept of the program's goals and measurements of success. The Commission expects that the Company will seek input from the collaborative work group in developing the report on goals. Because an overview of the goals and measurements of success is necessary for any meaningful program evaluation, the Commission will require the Company to submit this filing within 30 days of the date of this Order.

ORDER

1. The Commission adopts a low-income discount pilot program with the terms and conditions discussed in the body of this Order.

2. On or before December 12, 1994, the Company shall file with the Commission and serve on all parties on the official service list for this docket:

   a. Its proposed low-income discount plan explaining in detail how it will be implemented, including coordination with CAP agencies, income disclosure authorization, and participant selection.

   b. With input from interested parties, an energy education and conservation visit provision.

3. Within 30 days of the date of this Order, Minnegasco, with input from interested parties, shall file a plan to gather data for evaluation purposes that includes at least the following:

   a. Has the low-income discount program affected the level of contributions to HeatShare?

   b. Has the leveragable federal energy funding increased as a result of the discount program?

   c. The effect on low-income customers' ability to pay in general and for each of the EAP income tiers.

   d. The effect on the Company's bad debt expense, level of accounts receivable 30/60/90 days past due, and participants' gas usage.

   e. Changes in number of disconnects/reconnects, collection calls and other collection activities and the associated costs.

   f. What is the impact on other ratepayers both financially and regarding acceptance of the program?

g. Has the existence of the program increased the number of people applying for energy assistance resulting in smaller grants?

h. Is there any difference in payment results between customers that receive both the NSP discount and the Minnegasco discount and those that have just the Minnegasco discount?

i. Are there any differences in increases of arrearages for participants and non-participants?

j. Are there different effects from low-income rates for participants who have high or low arrearages?

k. Other than the Energy Assistance Program, how can eligibility by determined?

l. What are the reasons customers who are income eligible do not apply for energy assistance

m. A statement of the goals of the pilot program and the suggested methodology to measure the program's success.

4. Within 45 days of the date of this Order, Minnegasco shall file a report on its arrearage forgiveness program conducted from April, 1994, through September, 1994, including a description of the program, and an evaluation of its costs, effectiveness, and overall results.

5. On or before June 30, 1995, the Company, working with interested parties, shall prepare and submit a proposal for extending eligibility for the low-income discount program beyond participation in the Energy Assistance Program. The proposal should include a discussion of reasons that 60 percent of income eligible customers do not apply for Energy Assistance.

6. The Company shall file with the Commission, with copies to the Department of Public Service and the Department of Economic Security, the following:

   a. On or before April 15, 1996, an interim report covering calendar year 1995.

   b. On or before September 30, 1997, a final report covering January 1, 1995, to June 30, 1997.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)