

June 19, 2018

MEMORANDUM

TO: Public Service Commission
FROM: Robin Arnold, Bob Decker, Zack Rogala
SUBJECT: Reconciliation of Energy West's No Interest Loan Program in West Yellowstone

PURPOSE

The purpose of this memo is to provide staff analysis and recommendation on the application from Energy West Montana ("EWM") for approval of the reconciliation of its No Interest Loan Program ("NIP") in West Yellowstone.

BACKGROUND

The Montana Legislature passed a bill in 1977 that allowed Montana utilities to take a tax credit against their state corporate tax liability for the costs associated with providing no-interest and low-interest loans to consumers to encourage conservation of electricity and natural gas. Shortly after implementing the program, Great Falls Gas Company (now EWM) spent more on the program than its state tax liability and received approval from the Montana Public Service Commission ("Commission") to implement a NIP surcharge to recover costs not covered by the tax credit. The surcharge applied to Great Falls Gas Company, West Yellowstone Gas Company, and Cascade Gas Company.¹ The state tax credit provision was eliminated by the Legislature in 1993, and costs of the program since then have been recovered solely through the surcharge.

In Docket D96.7.123, the Commission approved a 70% increase in Great Falls Gas Company's NIP surcharge in West Yellowstone, Great Falls, and Cascade to recover \$333,578 in unrecovered costs and fully fund the NIP program. The West Yellowstone NIP surcharge was set at \$0.00644/CCF. The Commission required Great Falls Gas to evaluate the NIP and file a report with the Commission. After receiving the report, the Commission was to re-evaluate the surcharge. EWM submitted a report on the NIP to the Commission in 1998; however, it was never re-evaluated by the Commission and the West Yellowstone NIP rate remained at \$0.00644/CCF from 1997 to present.²

In 2006, the Commission approved a Stipulation between EWM, Energy Share, and the Montana Consumer Counsel ("MCC") that used \$450,000 in over-collected NIP funds for Energy Share low-income weatherization. EWM's rates for Universal System Benefits (USB) programs and the NIP

¹ Order 6719b, Dkt. D2005.12.177 (Oct. 13, 2006); Great Falls Gas Company, Cascade Gas Company, and West Yellowstone Gas Company were divisions of Energy West, Inc. When open access to Energy West, Inc.'s natural gas system in Montana occurred in 1999, it began referring to its three divisions in Great Falls, Cascade, and West Yellowstone collectively as "Energy West Montana."

² "GFG (John Allen) – Report relating to No Interest Loan Program," Dkt. D96.7.123 (Apr. 17, 1998).

were combined into one rate as a result of the stipulation. The new rate applied to EWM's Great Falls, Cascade, and Hardy Creek service areas. West Yellowstone was not evaluated in that docket.

In EWM's 2017 reconciliation of its USB programs in Great Falls, Cascade, and Hardy Creek, Commission staff became aware that West Yellowstone's NIP had not been reviewed or reconciled since 1997. Accordingly, the Commission required EWM to file a reconciliation of West Yellowstone's NIP by December 1, 2017.³ In compliance with that requirement, EWM filed the current docket on December 1, 2017.

In its application, EWM reported an over-collection of \$112,506.66 in West Yellowstone's NIP account (this amount was corrected to \$112,865 in response to PSC-005 after accounting errors were discovered). Of that total, \$81,101.57 had accrued in the West Yellowstone program, and \$31,405.09 had been inadvertently transferred from the West Yellowstone account to Great Falls when the Great Falls USB program was restructured in 2006. Most of the over-collected amount was due to a decline in participation in the NIP, to the point where no loans have been outstanding since December 2006.⁴

EWM proposes to use 50% of the over-collection to make a one-time contribution of \$56,253 to Energy Share. EWM also proposes to convert the NIP surcharge to a USB charge, and to contract with Energy Share to establish West Yellowstone USB programs. EWM would spend 1.12% of gross revenues on its USB program, bringing it into compliance with [Mont. Code. Ann. § 69-3-1408](#) and [Mont. Admin. R. 38.5.7020](#). EWM proposes using any unspent West Yellowstone USB funds in its Great Falls service territory.

The USB charge would remain at \$0.00644/CCF, and expenditures not covered by the USB charge would come from the remaining over-collected amount. EWM proposes to file annual reconciliations of its USB plan to true up any over- or under-collections.

In contrast to EWM's proposal, MCC recommends that the Commission waive its Administrative Rules and implement the minimum 0.42% of revenue from the previous year for West Yellowstone's USB funding level.⁵ MCC suggests that this funding level should be applied to West Yellowstone's gross revenues from 1997 forward, and the difference between that amount and the \$112,865 in actual over-collections (approximately \$3,100) should be refunded to customers over a 12-month period. With a reduction in funding to 0.42% from 1.12%, there is less likely to be cross-subsidization of EWM's Great Falls USB program by West Yellowstone customers. MCC also recommends that the remaining \$109,764 and any future over-collections be held in a separate, interest-bearing account for use in USB bill assistance and weatherization programs for West Yellowstone customers.

³ Order 7558a, Dkt. D2017.6.47 (Oct. 30, 2017).

⁴ Henthorne Init. Test. p. 4 (Dec. 1, 2017).

⁵ Schulz Test., p. 7 (Mar 15, 2018); see § 69-3-1408(2) regarding minimal USB funding requirement for natural gas utilities.

In rebuttal testimony, EWM agrees with MCC that Mont. Admin. R. 38.5.7020(2) should be waived and the funding level for West Yellowstone should be reduced to 0.42% of the previous year's annual revenues until demand for new USB programs has been established. If participation in West Yellowstone USB programs increases, the funding level can be raised at that time. EWM also agrees that over-collections should be held in a separate interest-bearing account until extinguished.

EWM agrees with MCC that \$3,100 should be refunded to customers; however, EWM suggests refunding the amount as a one-month credit on customers' bills. This would result in a credit of approximately \$5.05 per customer.⁶

EWM proposes to immediately implement a low-income discount program for customers signed up for LIEAP assistance in West Yellowstone. EWM also proposes to collaborate with Energy Share and possible other third-parties, such as Human Resource Development Council, to implement furnace efficiency, weatherization, and bill assistance programs for West Yellowstone low-income customers. EWM would file notices with the Commission when programs for West Yellowstone are established, which are intended to mirror existing USB programs in Great Falls. EWM would file applications for approval for any new West Yellowstone USB program that does not mirror an existing Great Falls USB program. Annual reports on West Yellowstone's USB programs would be included in EWM's annual USB filings due June 1 of each year, beginning in 2019.

ANALYSIS

Accounting for NIP Surcharge

When the NIP surcharge was increased to the current \$0.00644/CCF rate in 1997, EWM had unrecovered costs of \$333,578 related to the NIP. After the rate was established in 1997, accounting for NIP expenditures was inconsistent, with some expenditures being paid by West Yellowstone and some expenditures being paid by Great Falls. All of the revenues collected from the West Yellowstone NIP surcharge were transferred to Great Falls, with the amount being held by Great Falls until it was to be used for NIP expenses.⁷

In the initial testimony of Jed Henthorne, EWM's President and General Manager, he states that \$31,405 of funds from West Yellowstone's NIP were inadvertently included in the beginning balance of the restructured Great Falls USB program in 2006.⁸ That equals the amount collected by the West Yellowstone NIP surcharge that was not paid out for NIP expenses from February 1, 1997, through November 30, 2006, in EWM's initial application. MCC agreed with EWM that

⁶ Henthorne Rebuttal Test. p. 5 (Apr 20, 2018).

⁷ West Yellowstone remitted all cash collections from its customers to EWM, which was held in Great Falls until it was needed for disbursements, including for the NIP program expenses.

⁸ Henthorne Init. Test. p. 4.

\$31,405 should be transferred back to West Yellowstone from Great Falls. In response to PSC-002, however, EWM shows a total amount transferred to Great Falls of \$31,763.63.

Establishing West Yellowstone's USB Funding Level

Initially, EWM proposed to set West Yellowstone's USB funding level at 1.12% of annual revenues, which is the minimum required in Mont. Admin. R. 38.5.7020(2). The money would be paid to Energy Share for expenditures on USB programs. Under that proposal, the USB rate would remain at \$0.00644/CCF, and the amount not collected from customers would come from the over-collected NIP balance. As an example of how this proposal would function, for 2017 the USB requirement at 1.12% of annual retail sales would have been \$16,970 for West Yellowstone. In 2017, the NIP surcharge collected \$9,041, which was 0.6% of the West Yellowstone's annual retail sales in 2017. The remaining \$7,929 would then be recovered from the over-collected balance.

MCC recommends that the Commission waive Mont. Admin. R. 38.5.7020(2) and instead establish a USB rate of 0.42% of West Yellowstone's annual revenue for the previous year, the minimum percentage required by statute. MCC recommends applying 0.42% from 1997 forward and to return the excess to customers.

In response to PSC-032, EWM suggested that the USB charge at a rate of 0.42% would be \$0.00501/CCF.

Proposed USB Programs

MCC recommends that EWM immediately implement a low-income bill discount program for West Yellowstone modeled on the program in place for Great Falls. MCC also recommends that EWM present a written plan for using funds and the over-collection for weatherization and bill assistance programs.

The cost for the low-income assistance program as recommended by MCC could vary widely based on participation levels. In 2017, West Yellowstone had two natural gas customers who receive LIEAP assistance. Low-income assistance for those two customers would be \$308.⁹ An estimated 26 customers in West Yellowstone's service territory also received LIEAP assistance for electric bills in 2017; if those customers were to receive low-income assistance for natural gas, the estimated cost would be \$4,004. EWM estimates that there are as many as 106 households living at or below the poverty level in West Yellowstone; if all 106 households were to receive low-income bill assistance for natural gas, the cost would be \$16,324. In comparison, the USB funding level recommended by MCC would have been \$6,593 for 2017.

In rebuttal, EWM agrees with MCC that it should implement a low-income bill discount program immediately. However, it differs from MCC in that it also proposes to implement a contract with Energy Share or other third-parties to implement USB programs without first presenting a written

⁹ Response to MCC-004.

plan to the Commission for approval. These programs would mirror the USB programs in Great Falls for furnace efficiency, weatherization, and bill assistance.

STIPULATION AGREEMENT

On June 15, 2018, MCC and EWM filed a settlement agreement with the Commission. EWM and MCC agree to the following terms:

- The Commission should waive Mont. Admin. R. 38.5.7020(2) and instead implement the statutory minimum USB funding for West Yellowstone of 0.42% of West Yellowstone's annual revenues.¹⁰ Based on current tariffs and normalized sales volumes, EWM and MCC agree that the West Yellowstone USB rate should be reduced to \$0.00501 per CCF.
- \$3,100.33 shall be refunded to West Yellowstone customers as a per-customer credit on their July 2018 bills. Also, the NIP funds of \$31,763.63 included in EWM's Great Falls USB program should be transferred back to West Yellowstone. The total over-collected balance for West Yellowstone is \$109,764.87. This balance, along with ongoing West Yellowstone USB collections, shall be held in an interest-bearing account until extinguished. Accrued interest, net of any fees, will remain in the account.
- EWM shall use the over-collected NIP funds and ongoing West Yellowstone USB collections only on West Yellowstone USB programs unless otherwise ordered by the Commission.
- EWM shall immediately implement a low-income discount for customers in West Yellowstone, based on the discount currently offered in Great Falls.¹¹ EWM shall investigate ways to increase participation in the low-income discount program.
- EWM shall expand USB programs offered to West Yellowstone customers, with consideration of the USB programs currently offered by EWM in Great Falls. EWM shall file a West Yellowstone USB plan as a compliance filing in this docket no later than October 1, 2018. The plan shall include a description of the planned USB programs, identification of how EWM intends to spend the NIP over-collection and ongoing USB collections on the proposed programs (including the low-income discount), and any third-party agreements related to the proposed USB programs.
- Reasonable costs of promotional activities for the low-income discount and future USB programs shall qualify as a USB expense.
- EWM shall separately account for the USB collections and expenditures in West Yellowstone.

¹⁰ Mont. Admin. R. 38.5.7020(2) specifies an amount "no less than 1.12 percent of the utility's...annual revenues derived from natural gas services to end users." § 69-3-1408(2) Mont. Code Ann. sets the rate at "0.42% of a natural gas utility's annual revenue for the previous year." As the administrative rule is being waived, staff recommends clarifying that the funding for West Yellowstone should be 0.42% of West Yellowstone's annual revenue for the previous year.

¹¹ Staff recommends using more specific language in the final order, to state that the low-income discount program will be structured the same as the low-income discount program in Great Falls, which is a discount of 16% to 18% available for low-income customers currently signed up for LIEAP assistance.

- Beginning on June 1, 2019, EWM shall include the West Yellowstone USB programs in its annual filing currently provided for EWM's other USB programs. The annual reports for West Yellowstone shall include information regarding the status of the USB programs, collections and disbursements, plans for program promotion and expansion, and proposed budgets.¹²

STAFF RECOMMENDATION

Staff recommends that the Commission waive Mont. Admin. R. 38.5.7020(2) and adopt the stipulation filed by the parties, with clarifications as specified in the footnotes to the "Stipulation Agreement" section of this memo.

¹² Staff recommends that the annual reports also specifically describe and account for the West Yellowstone USB programs.