



**National Fuel**

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**BY EMAIL FOR ELECTRONIC FILING**

Honorable Kathleen H. Burgess  
Secretary  
New York State Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223-1350

Re: Case 14-M-0565 – Proceeding on Motion of the Commission  
To Examine Programs to Address Energy Affordability for  
Low Income Utility Customers

Dear Secretary Burgess:

Enclosed are the comments of National Fuel Gas Distribution Corporation in response to the *Notice Seeking Comments* issued by the Public Service Commission on January 16, 2015.

Please call me if you have any questions.

Very truly yours,

Kenneth M. Gossel

Deputy General Counsel

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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**Proceeding on Motion of the Commission to  
Examine Programs to Address Energy  
Affordability for Low Income Utility Customers**  
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**CASE 14-M-0565**

**COMMENTS OF NATIONAL FUEL GAS DISTRIBUTION CORPORATION**

National Fuel Gas Distribution Corporation (“National Fuel” or “Company”) submits these comments in response to the questions identified in the *Notice Seeking Comments* issued on January 16, 2015 (“Notice”) addressing energy affordability for low income utility customers in New York State. We appreciate the opportunity to submit comments to the Commission’s questions.

This proceeding presents an opportunity to examine the current low income program offerings across New York State. Where appropriate, programs may be standardized to reflect best practices and the regulatory process streamlined to conserve administrative resources. In this examination, great care must be taken to analyze and understand the history of existing programs. Utility low income programs have developed over a long period of time and reflect regional differences. What works in Manhattan won’t necessarily be effective in Massena. Additionally, utilities have often worked within the limitations of existing customer information systems – utility and government - in establishing and administering these programs. To the extent that significant changes are mandated, there could be great expense in developing new systems.

## **1. Overall Policy**

### **a. How do we achieve the goal of affordability most effectively, and at minimum cost?**

For most gas customers, affordability is achieved when natural gas is competitive with heating fuel alternatives. Currently and for the foreseeable future, natural gas is significantly less costly than oil and propane. One indicator of affordability is whether customers are purchasing more of a product, all other things being equal. Normalized consumption of utility-delivered natural gas is on the upswing as customers adjust to the new environment of lower gas prices. Were natural gas not affordable, customers would use less. This result is all the more notable given that customers are continuing to weatherize their homes and purchase high-efficiency appliances.

But market-level heating costs can nonetheless be a significant burden on low-income customers. The long-running solution to the problem of energy affordability has been to shift the cost of low-income programs, including rate discounts, to the general body of ratepayers. Although this practice is not expressly prescribed in the Public Service Law, it is nonetheless well-established and, more importantly, the rates can be effective when they (a) reduce rates for low-income customers, therefore increasing affordability; and (b) promote payment practices that result in fewer shut-offs.

Affordability is best achieved through combining resources from government, communities and the utilities. These resources can be leveraged with low income programs to provide affordable bills. Those programs in which customers affirmatively apply in order to participate and are aware of participatory benefits are likely to be most effective. When given an affordable bill customers should be required to pay it or face disconnection which will improve payment behavior and will in the long term, reduce collection expense. Only in this way will

costs to other customers that do not participate in low income programs (“non-participating customers”) remain reasonable.

**b. What is the level of affordability that should be achieved? How should the appropriate “energy burden” (i.e., the percentage of a customer's income that is spent on energy) or level of affordability be determined?**

A household’s energy burden is a good way to determine affordability. Other states such as Pennsylvania have defined energy burden and established targeted utility bill levels.<sup>1</sup> These are best established based on income levels, and will vary within ranges established by the regulatory body.

**c. What is the appropriate level of funding? How much assistance should be provided by ratepayers, in light of taxpayer and privately funded assistance?**

A successful low income program design will coordinate the benefits from ratepayers, taxpayers and private assistance. Each plays an important role in providing an affordable bill. In a successful low income program that appropriately recognizes the impact on participating and non-participating customers’ need will drive funding; in periods of high energy costs funding requirements will increase while in periods of low energy costs funding needs will decrease. The table on the following page summarizes the overall cost of the Company’s Pennsylvania low income residential assistance rate.

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<sup>1</sup> The design elements of Pennsylvania customer assistance can be found at:

<http://www.pacode.com/secure/data/052/chapter69/s69.265.html>

National Fuel Gas Distribution Corporation  
 Pennsylvania Division  
 Low Income Residential Assistance Rate - Cost Summary

12 Months Ended September	Discounts Provided	LIRA Program Costs	Arrearage Forgiveness	Total Cost	Participants	Average Residential Customer Price Per Mcf
2008	\$ 6,239,869	\$ 173,792	\$ 707,096	\$ 7,120,757	11,374	\$ 14.85
2009	\$ 7,181,115	\$ 207,731	\$ 808,559	\$ 8,197,405	12,976	\$ 15.45
2010	\$ 2,005,170	\$ 139,245	\$ 819,039	\$ 2,963,454	13,133	\$ 10.17
2011	\$ 1,952,261	\$ 139,774	\$ 622,787	\$ 2,714,822	12,382	\$ 10.42
2012	\$ 1,468,920	\$ 137,216	\$ 392,222	\$ 1,998,358	11,836	\$ 10.44
2013	\$ 1,300,067	\$ 174,857	\$ 278,029	\$ 1,752,953	10,941	\$ 9.67
2014	\$ 1,426,746	\$ 116,618	\$ 271,711	\$ 1,815,075	10,041	\$ 9.73

This table demonstrates how the total cost of providing a predefined affordable rate for low income customers has decreased as the average rate paid by all residential customers has decreased.

**d. How can benefits be maximized and costs minimized?**

**i. What approaches maximize the benefits to participating customers?**

Utilization of all resources, such as HEAP, available weatherization and low income program participation, is essential to maximizing the benefits to participating customers. It is essential that the customer remains responsible for his or her bill, and understands the need to apply for and follow up on benefits that may be available.

**ii. Can waste and administrative costs be further reduced?**

Reduced administrative costs are possible by utilizing common factors for eligibility. Commonly used criteria, such as HEAP eligibility, and data sharing between counties and utilities are important elements to reducing waste and minimizing administrative costs.

**e. How specifically can utility programs be better coordinated with the Home Energy Assistance Program (HEAP), fuel funds, and/or other forms of assistance?**

Many existing utility low income programs use the receipt of HEAP payment assistance benefits as a determinant for program eligibility and participation. Thus, many utilities enroll customers in their low income programs once HEAP is provided. This is an extremely cost effective way to identify low income customers.

Under existing rules, there is often a conflict between low income program participation and HEAP Emergency benefits. OTDA requires that a client be without utility service or faced with its imminent loss prior to the issuance of an Emergency benefit. Utility programs require timely payment. Thus, often customers will need to default in payment to be eligible for additional HEAP funding. The Public Service Commission should work with OTDA to develop a solution that would allow the neediest clients to be eligible for additional funding without the need to default in payment. Programs should reward good payment, not the opposite.

For a limited number of customers, fuel funds are an important resource in helping them to pay their bills. Funding, however, is very limited.

One area of coordination that should be explored is the non –HEAP governmental assistance that may be available to customers under New York Social Services Law. After customers have exhausted options with their utility, including defaulting on an affordable deferred payment agreement, they are eligible for assistance through local departments of social services. There is very little coordination of these benefits and customers frequently do not procure them.

**f. Are there barriers to non-utility entities offering assistance programs which are not funded by ratepayers, and if so, how can they be removed?**

There are no known barriers to non-utility entities offering assistance programs which are not funded by ratepayers.

## **2. General Program Design Issues**

### **a. Should a uniform statewide program be created? If not, to what extent should diversity among utilities in the design of affordability programs be allowed?**

Uniform statewide programs should not be created for the natural gas industry in New York State. The utility natural gas service territories are too diverse to develop effective uniform statewide low income affordability programs. The usage characteristics of residential natural gas customers vary greatly across the state. The uniqueness of each utility service territory and disparity between upstate and downstate residential natural gas characteristics was highlighted in a report to the Commission relating to natural gas efficiency goals in Case 07-M-0548.<sup>2</sup> The Natural Gas Efficiency Report identified a number of stark differences in the characteristics of residential natural gas customers between the upstate cities of Rochester and Buffalo and New York City.<sup>3</sup>

Natural gas utilities serving New York City have a significant “cooking only” residential customer base, while upstate utilities’, including National Fuel, residential customers predominantly use natural gas for heating their homes and hot water requirements as well as cooking.

The overall cost of natural gas to residential heating customers can also vary significantly. Due to the favorable access to low priced, hydro fractured natural gas supplies as

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<sup>2</sup> Report on Natural Gas Efficiency Goals; WORKING GROUP V; CASE 07-M-0548 – Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard; October 17, 2008. (“Natural Gas Efficiency Report”)  
[http://www.dps.ny.gov/07M0548/workgroups/WGV\\_Final\\_Report.pdf](http://www.dps.ny.gov/07M0548/workgroups/WGV_Final_Report.pdf)

<sup>3</sup> Natural Gas Efficiency Report, pages 15-26.

well as the overall lower operating costs in general, upstate natural gas utilities have significantly lower unit cost rates than downstate utilities.<sup>4</sup>

The residential heating requirements between upstate and downstate can also vary significantly because it is significantly colder in upstate service territories.

**b. What additional benefits and costs are introduced by implementing a portfolio of assistance programs to address a range of customer-specific needs, as opposed to a single program?**

While a portfolio approach may provide for a greater number of customers participating in assistance programs it will increase overall costs to non-participating customers. The administrative costs associated with managing multiple programs will contribute to this overall increase in costs. Programs limited to a more uniform and consistent design will likely prove to be less confusing to customers as well as lower administrative costs. Programs with a uniform design can also be used to serve an expanding group of customers.

**c. What is the appropriate level of benefit per participant?**

The appropriate level of benefit per participant should be based on predefined need similar to that identified in the previously cited Pennsylvania program design.

**d. Should a basic level of assistance be provided to all eligible households (i.e., broad-based approaches), or should more assistance be directed to those most in need (i.e., targeted approaches)?**

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<sup>4</sup> STATE OF NEW YORK, DEPARTMENT OF PUBLIC SERVICE, MONTHLY RESIDENTIAL BILLS, MAJOR GAS COMPANIES, Winter 2013

[http://www3.dps.ny.gov/W/PSCWeb.nsf/ca7cd46b41e6d01f0525685800545955/c56a606db183531f852576a50069a75d/\\$FILE/Residentiall-%20Gas-%20Winter%202013-9-11-13.pdf](http://www3.dps.ny.gov/W/PSCWeb.nsf/ca7cd46b41e6d01f0525685800545955/c56a606db183531f852576a50069a75d/$FILE/Residentiall-%20Gas-%20Winter%202013-9-11-13.pdf)

Bill for 200 Ccf of monthly consumption:

Downstate:

The Brooklyn Union Gas Company (Brooklyn, NY) - \$214.79

Consolidated Edison (Manhattan, NY) - \$298.75

Upstate:

Niagara Mohawk (Syracuse, NY) - \$173.10

Rochester Gas and Electric (Rochester, NY) - \$188.34

National Fuel Gas (Buffalo, NY) - \$155.00



See c. Since income levels can vary dramatically, it is difficult to provide broad based programs that will be effective in improving customer payment practices. Since program resources are limited, assistance should be directed to the customers most in need. National Fuel's LICAPP program is designed to do just that.

**e. If funds are targeted, is it more important to direct funds to households with the lowest incomes, the highest bills, the largest arrears, or those at greatest risk of termination?**

The resources available to fund low income programs are limited. Designing programs that target benefits to households with the lowest income and highest bills, which are typically the customers with the largest arrears and at the greatest risk of termination, is an effective use of limited resources.

**f. What are the least-cost approaches to administering targeted programs?**

A standardized program, targeted toward predefined customer needs that adjust benefits based on changes in out of pocket energy costs is the most cost effective approach to administering targeted programs. Degrees of affordability will change as energy prices change. Predefining needs will allow for lower costs of administering programs as prices decline. While program costs may increase as prices rise, the financial burden as a percentage of income will also rise more dramatically for low income customers relative to other customers.

### **3. Program Type**

**a. Comments are solicited on the advantages and disadvantages of each of the following approaches:**

**i. Fixed Discount**

Fixed discounts on qualified low income customers' bills have the advantage of relatively simple administration and calculation. The fixed discount amount can simply be deducted from

the minimum charge rate or just credited to the customers' bill. Fixed discounts, however, are not very effective in meeting the predefined affordability requirements of low income programs. Since the discount is fixed dollar amount, the discount level will not adjust for the amount of energy used by the low income customers. While it is possible to design tiered fixed income amounts based on household size and income, low income customers in better insulated homes with more efficient appliances will receive a greater benefit relative to income than low income customers in housing stock without such benefits.

## **ii. Percentage Discount**

Percentage discounts are also relatively easy to administer and calculate. Overall percentage discounts can be designed for household size and income level and discounts applied to customer bills. The biggest constraint in designing percentage discount program may be the capability of utility billing systems in applying the discount to customer bills. One solution is to apply the discount amount to the full service rates and input into the utility billing system discounted unit rates for the appropriate qualified low income customer rate category. Percentage discounts (as well as discounted unit rates) can be designed to meet the predefined affordability requirements of low income customers. Since the overall bill discount will adjust based on customer usage, the quality of housing stock will not impact the affordability results for particular low income customer. Also, since the total bill paid by the customer will still be a function of usage, the customer will still have an incentive to conserve energy.

## **iii. Volumetric Discount, including whether volumetric discounts should be capped; and if so, at what level (e.g., providing a discounted block reflecting average usage for low income households, with subsequent usage blocks at full rate)**

See the response to percentage discounts in 3.a.ii. above. Volumetric discounts will have similar benefit to the percentage discount.

Capping discounts (either volumetric or percentage) will add additional complexity to administration of the low income program as well as customer information billing system design.

#### **iv. Percentage of Income Payment Plan (PIPP)**

PIPP programs are designed to tailor the low income customers' energy bill payment amount to the energy usage and income and household size of the individual customer. It is effectively a flat monthly charge for energy and ignores the customer's actual usage. PIPP programs have extremely high administrative costs since individual bill amounts must be determined for each customer. PIPP plans also completely destroy the incentive for a customer to conserve energy because their energy bill is not a function of how much energy they use, the customer simply pays a flat amount based on their income.

#### **v. Arrears Forgiveness**

Arrears forgiveness is an essential aspect of certain low income programs. A sizeable number of customers have accrued arrears as a result of high energy costs and unaffordable bills. Arrearage forgiveness provides these customers with a tangible incentive to timely pay affordable bills and, in the process, has them see the benefit of program participation. It allows these individuals to get back on track and is an incentive for them to prioritize the payment of their utility bills over other bills. Spreading out arrears forgiveness over several years provides sufficient time for participants to solidify good payment habits.

#### **vi. Reconnection Fee Waiver**

Reconnection fee waivers are antithetical with a good low income program. To begin with, the objective of any low-income program is to promote payment practices that enable continuous service. Toward that end, participants should not be rewarded for failing to make timely payment of utility bills. A well designed low income program will provide for a

predefined affordable service. Therefore, customers will have sufficient resources available to pay their discounted energy bill. Since non-participating customers effectively recover the costs of the discount program, adding the costs of reconnection fees associated with failing to pay an affordable bill, will only add to the costs shouldered by non-participating customers.

**b. What is the appropriate balance between funding for rate discounts, arrears forgiveness, reconnection fee waivers, and/or other types of assistance?**

The Company believes that its Pennsylvania low income rate provides a reasonable balance between rate discounts, arrearage forgiveness, customer education and overall administrative costs, while meeting the predefined affordability requirements of low income customers.

**4. Determining Eligibility/Enrollment**

**a. How can eligibility for utility affordability programs best be determined?**

Eligibility for participation in utility low income programs should be based on household income. Using HEAP eligibility guidelines and benefit grants to identify low income customers is an efficient means of determining participation.

**i. Who should determine eligibility?**

The PSC should establish a baseline standard for low income program eligibility. Historic programs have used 60% NYS median income, the threshold for HEAP.

**ii. Should eligibility consider other financial assets, in addition to income?**

Asset tests are costly to administer and provide a barrier to program access. Additionally, they are not a good test of current household status that may be impacted greatly by a recent job loss or illness.

**iii. Should current eligibility criteria be expanded to encompass more households?**

Expansion to more households should be considered only if it will not dilute the benefits provided under existing low income programs. Historically, low income programs that provide a more robust benefit have resulted in better customer payment than those that offer only a small, set discount.

**b. If enrollment is not automatic, how can the number of eligible households enrolled be maximized? Can better ways be found to reach more of the eligible population, and if so, what are they?**

Enrollment can be maximized through the use of internal referrals based on information available to all parties, government programs, private organizations and utility records. Referrals should also be made by all social service programs. A certain percentage of eligible households will not participate. Barriers include education, language and perceived difficulties in applying. Also, current rates and bills may be deemed affordable for certain customers given their individual circumstances.

**c. How can it be ensured that benefits are only paid to customers who are eligible?**

Adherence to program guidelines is important. There should be periodic reverification of customer information, especially household income.

## **5. Program Evaluation**

**a. What are the criteria the Commission should use to evaluate the effectiveness of different approaches? Some potential criteria for consideration include the following:**

**i. Participation rates among eligible households**

Participation rates among eligible households are a good measure of evaluating effectiveness. Needs assessment tools can set goals for each program based on utility and census data.

**ii. Level of administrative costs/percentage of program budget disbursed as participant benefits**

A comparison of administrative costs as a percentage of total program budgets will serve as a measure of program effectiveness and will ensure that funding is focused on providing real benefits at minimal cost.

**iii. Average dollar benefit per recipient**

The use of average dollar benefit and average reduction are not effective tools for evaluation. New York State has many different housing and fuel types, program variations, and utility territories, etc. Information such as average dollar benefit would be too diluted to provide any meaningful assessment.

**iv. Average reduction in participant energy burden and/or bill amount**

See previous response.

**v. Reductions in utility arrears and/or bad debt**

Analysis of arrears and bad debt are a useful measure providing insight into the benefits of the programs.

**vi. Reductions in termination rates among eligible households**

Reduction in termination rates is the objective of effective low income programs. Many customers successfully participate in them. However, shut off rates can increase under some programs. For example, in Pennsylvania utilities are expected to enforce the monthly payment amount immediately upon default for customers that are receiving an affordable bill with the goal of improving payment behavior. This can increase the number of terminations.

Often a low income program is the last resort for a customer who has no other options. In this regard, these customers may be getting extended service that they may have not otherwise qualified for. While the end result may be termination of service for nonpayment, they may have

extended the time in which they had service by participating in the low income program. This type of measurement may serve helpful in an analysis of program success.

**vii. Percentage of participants who are current on their bills (i.e., not in arrears)**

Examining the percentage of customers that are current or near current is one of the best evaluation criteria for a low income program. With proper program design and education, payment rates can improve dramatically.

**viii. Rate/bill impacts on non-participating customers**

It is very important to evaluate the cost of low income programs on other non-participating customers in order to ensure that their rates remain in all respects just and reasonable. Successful low income programs will maximize the contributions by participants while minimizing costs associated with collection. This simple quid pro quo, in return for a discounted predefined affordable rate participants are expected to pay their bill which in turn results in lower overall costs in providing essential services to low income customer, provides a useful explanation to non-participating customers for the overall benefit of low income customers.

**ix. Other criteria (please specify)**

To best ensure the continuation of utility service for the preservation of the health and general welfare, all available resources including utility, government and private resources need to be examined and coordinated. Utility low income programs and fuel funds certainly play a part, but are not the only elements that assist the state's most needy citizens. Better coordination of all resources should be the goal to assist them.

**b. How should utility benefits (e.g., reduced arrears, collection costs, write-offs, etc.) be weighed relative to participant benefits (e.g., maintaining service/reductions in terminations, increased affordability, and reduced energy burden)?**

An effective low income program that, over time, reduces collection activity and terminations will result in reduced collection costs and lower write-offs. Program costs should be in relation to the attendant avoided cost of collection.

**6. Please comment on any other relevant matters that are not specifically addressed above.**

National Fuel has no further comments at this time.

Respectfully submitted,

NATIONAL FUEL GAS  
DISTRIBUTION CORPORATION

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Dated March 4, 2015