

Written Testimony of
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Deputy Commissioner for Energy & Telecommunications
Minnesota Department of Commerce
Before
The Senate Permanent Subcommittee on Investigations
of the Committee on Homeland Security and Governmental Affairs
February 13, 2006

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss with you issues surrounding the recent volatility and historic highs in natural gas prices and their effects on Minnesota consumers.

I want to extend my sincere thanks to you, Senator Coleman, for your aggressive and continuing efforts to secure additional LIHEAP funding. That funding is very important to Minnesota. It provides direct help to those who are most adversely affected by the higher heating costs.

Natural Gas Prices

The Minnesota Department of Commerce closely monitors natural gas prices and supply because of its role as an advocate for all natural gas consumers and the broad public interest in matters before the Minnesota Public Utilities Commission.

After the devastating events of Hurricanes Katrina and Rita, many consumers were aptly concerned with how much natural gas would cost them and if there would be enough gas available to get through the winter. In November, Minnesota customers were paying an average of \$12.02/Mcf. Based on this increase in price, the Department projected that average heating bills would be 70 percent higher than last year. Luckily, Mother Nature has been kind to us this winter— last month was the warmest January since 1846 in the Twin Cities, and the warmest on record for International Falls and Duluth. As a result of the lower demand and the recovering delivery capacity in Louisiana, February natural gas prices in Minnesota are, on average, \$9.38/Mcf.

Based on price predictions last fall, this all appears to be very good news for Minnesota consumers. However, it is important to keep in mind that the heating season is not over, and even with mild weather to date and \$9.38/Mcf gas, average heating bills in January are still expected to be 37% higher than they were last January.

Department of Commerce Response

Governor Pawlenty's Heating Security Initiative

In response to the historically high natural gas prices, last November Governor Pawlenty announced his Heating Security Initiative aimed at assisting customers most impacted by

the high natural gas prices. The Department of Commerce is charged with implementing the initiative's three main goals:

- 1) **Keeping the heat on for low-income customers through no shut off agreements with major utilities.** Six major utility entities have joined the agreement.
- 2) **Providing greater heating financial assistance to those in need.** Governor Pawlenty infused the LIHEAP program with \$13 million. This is the largest contribution of state money to the program in our history. The additional funding will allow the Department of Commerce to serve an additional 26,789 households. In addition, because of the higher energy costs, we have increased the average assistance amount households receive by 25% to \$500 per household (last year the average LIHEAP grant was \$400).
- 3) **Lowering utility bills through energy conservation.** Through the state's energy Conservation Improvement Program (CIP), the Department of Commerce has approved natural gas utility proposals to spend an additional \$2.1 million this winter. These programs will increase rebates for heating system tune-ups and replacements for residential homes, schools, nursing homes, hospitals and public buildings. Some of these programs also offer fully-funded furnace tune-ups and replacements to low-income energy consumers and fully-funded boiler system tune-ups to schools. Finally the state is leading by example: pursuant to Governor Pawlenty's Executive Order 05-16 we are reducing the energy consumption of state buildings by 10%.

Natural Gas Price Review and Regulation

Minnesota's regulated natural gas utilities charge their customers the same price that they pay to gas producers for the gas that they buy. Utilities only make a profit on their costs of operating their business. Normally these business-operation costs account for approximately 10% of a customer's bill. Since the price of the natural gas itself accounts for the largest portion of a customer's bill, the Department of Commerce is constantly reviewing natural gas prices charged to Minnesota customers by their state-regulated natural gas utilities.

The Department's analysis is geared toward ensuring that the utility is charging reasonable prices to its customers. If the Department finds an exception, it provides its analysis to the Public Utilities Commission and recommends that the Commission use its statutory authority to prevent unreasonable or imprudent costs from being charged to customers.

Public Education and Outreach

The State Energy Office in the Department of Commerce distributes energy conservation information and materials to the public through a variety of methods, including: providing background information and comments for print and broadcast media; staffing information booths at energy fairs, trade shows, conferences, and other public events; responding to telephone inquiries; and maintaining the Department website.

Administration of LIHEAP and Weatherization

Low Income Heating and Energy Assistance Program (LIHEAP)

To date this winter, total state and federal LIHEAP funds available in Minnesota equal \$101.5 million. These funds are used to provide direct heating assistance, additional funds in crisis situations and furnace repair or replacement for low-income households. With this funding, it is projected the Department will serve 145,800 Minnesota households with primary heating assistance. (The Department served 117,689 households last year.)

In addition to its efforts to serve more households, the Department has improved the administration of the LIHEAP program. Last year, the Department successfully developed and launched a new computer system called eHEAT. eHEAT centralized data collection and payments, thus increasing the efficiency of service provision for both local providers and energy vendors. For consumers, eHEAT reduced the time between application processing and receipt of the benefit.

Weatherization Assistance Program (WAP)

The Weatherization Assistance Program provides conservation services to low income households throughout Minnesota. In contrast to LIHEAP, which assists in paying low-income customers' immediate energy bills, WAP provides weatherization services such as weather-stripping, insulation and furnace tune-ups or replacements. These services will assist low-income consumers in lowering their energy bills for years to come.

WAP is federally funded through the US Department of Energy (DOE) and through US Health and Human Service's LIHEAP program. Minnesota supplements WAP funding with revenues from its petroleum inspection fee and propane excise tax. Additionally, Minnesota utilities provide some funding for weatherization through low-income Conservation Improvement Programs.

WAP's total budget for 2004-2005, including both state and federal funds, totaled \$14.28 million dollars. Of those funds, \$13.24 million were spent for program work, resulting in 3,952 homes being weatherized at an average cost of \$3,350.

Conclusion and Recommendations

- High natural gas prices appear to be here to stay, at least for the foreseeable future. The State of Minnesota and its natural gas utilities are diligent in using the tools at their disposal to provide consumers with reasonably-priced natural gas service. Congress has also taken steps to address this issue in their passage of the Federal Energy Policy Act of 2005. Also, the President's recent State of the Union Address called for further energy efficiency and innovation measures. The Minnesota Department of Commerce applauds these actions and is ready to help achieve our common goals.

Thank you again for the opportunity to be here today. Thank you again, Senator Coleman for your hard work to secure LIHEAP funding. With that funding and through the efforts

of Governor Pawlenty's Heating Security Initiative, we are providing greater energy assistance to more Minnesotans this winter than ever before; just when they need it.

Governor Pawlenty's Heating Security Initiatives

- Assisting more people
- Providing more resources
- Saving more energy

Presentation to:

U.S Senate Permanent Subcommittee on Investigations
Of the
Committee on Homeland Security and Governmental Affairs
Chair: Senator Norm Coleman
10:00 a.m. James J. Hill Reference Library
80 West 4th Street, Saint Paul, Minnesota
February 10, 2006

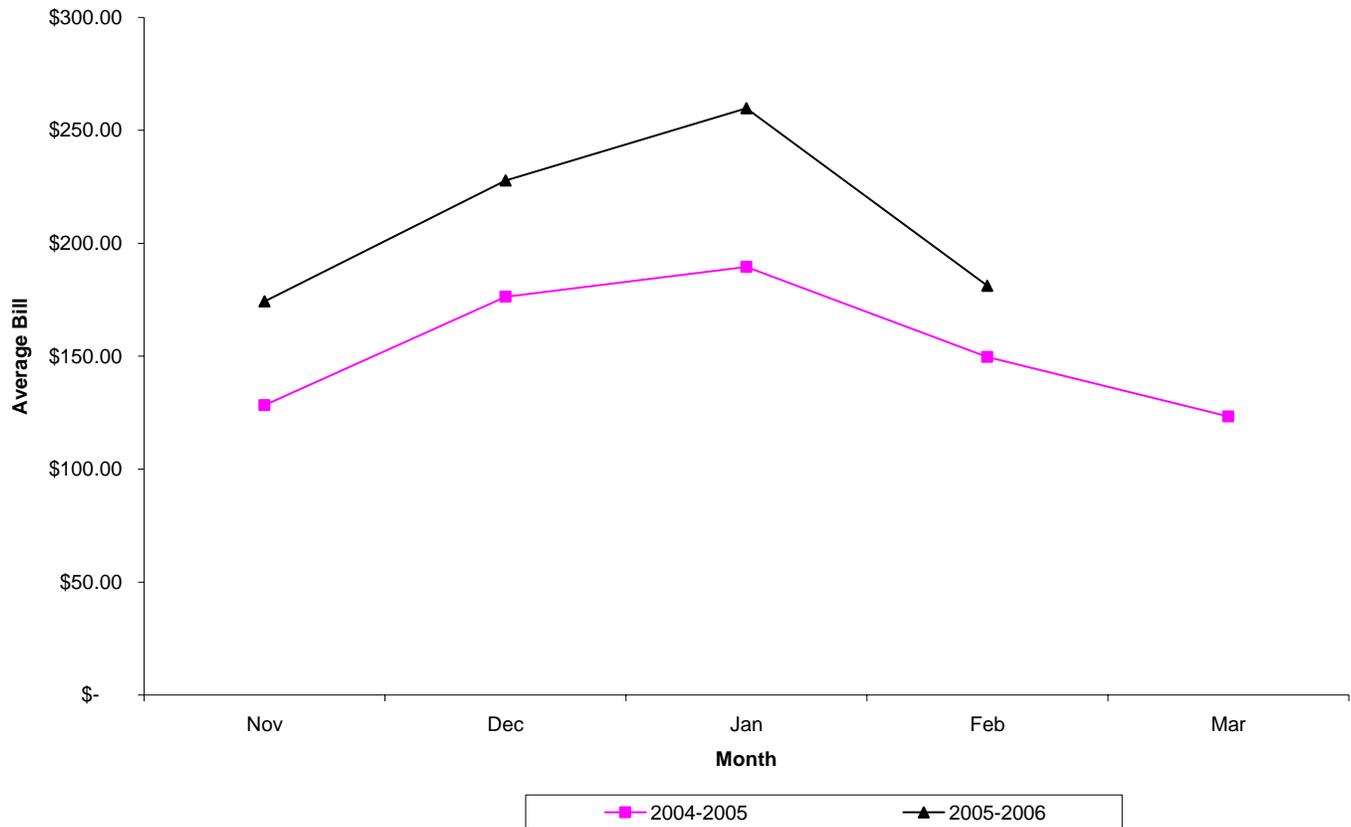


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Natural Gas Prices in Minnesota

Projected Average Residential Bill for Multiple Heating Seasons



Average Heating Costs for the past 7 winters			
	Amount of Gas used (MCF)	Cost of Gas used (\$/MCF)	Total Bill
<i>Nov-05</i>	12.5	\$12.02	\$185.00
<i>Dec-05</i>	17.9	\$11.18	\$227.78
<i>Jan-06</i>	20.5	\$11.54	\$271.90
<i>Feb-06</i>	16.2	\$9.38	\$181.13
<i>Mar-06</i>			
<i>Nov-04</i>	12.5	\$8.48	\$128.31
<i>Dec-04</i>	17.9	\$8.16	\$176.34
<i>Jan-05</i>	20.5	\$7.60	\$189.61
<i>Feb-05</i>	16.2	\$7.52	\$149.65
<i>Mar-05</i>	13.4	\$7.42	\$123.33

NOTES: **Amount of Gas** -- based on average usage during **normal weather** conditions for a CenterPoint Energy residential customer
Cost of gas -- Based on average costs obtained from MN regulated natural gas utilities (numbers have been rounded)
Other costs include all other residential charges including non-gas margin and customer charge (CenterPoint Energy tariffs)

SOURCE: Minnesota Department of Commerce, Energy Division. February 2006.

Factors affecting the cost of natural gas

Weather

Weather has probably the biggest impact on the size of customers' natural gas bills. Weather can affect both the supply and the demand side of natural gas. A good example of supply impacts is the devastation wrought by Hurricane Katrina, which abruptly closed down resources and destroyed production facilities in and around New Orleans. This sudden loss in supply has translated to increased prices until the damage is assessed and the resources are rebuilt. On the demand side, both winter and summer weather conditions impact the cost of natural gas. Winter weather always requires more gas to heat our homes. Unexpected cold snaps anywhere in the country can cause our heating bills to rise since natural gas is priced on a national market basis.

High oil prices

More and more, natural gas prices are mirroring the price of crude oil; so, as crude oil prices spike and fall, we see natural gas prices following suit. Part of the reason for this is that many large industrial customers can switch between using natural gas or petroleum products, depending on the price of each fuel. As a result, when oil prices go up industries tend to choose natural gas, which in turn increases the demand for natural gas and raises the price.

Increased price volatility

Because there is such a delicate balance between supply and demand, any single event (either domestic or international) can quickly affect the daily or monthly price of natural gas. Local gas distribution companies (LDCs), like Xcel Energy or Center Point Energy, purchase natural gas from suppliers which, in turn, purchase from producers or marketers. The amount an LDC pays for natural gas supplies is passed dollar-for-dollar through to its customers. Most LDCs have a mixed portfolio with different length contracts and financial hedging instruments. They also have the ability to purchase natural gas on the open or "spot" market when a better price is available or when additional supplies are needed. In addition, many LDCs purchase gas in advance and place it in storage for use during periods of peak demand in the winter. Although residential customers are somewhat insulated from rapid ups and downs in the price of natural gas by the purchasing practices of utility companies, bill payment options and state oversight, customers ultimately pay for what they use.

Background: Infrastructure and Regulation

Where our natural gas comes from

The majority of Minnesota's natural gas supply comes from the mid-continent basins located in Oklahoma, Kansas, and Texas. The remaining balance comes from Canada. Natural gas is transported to Minnesota by three major interstate pipelines: Northern Natural Gas which transports about 90 percent of the natural gas into Minnesota, Viking Gas Transmission and Great Lakes Gas Transmission which transport the rest.

Local natural gas utility companies deliver natural gas to customers. In Minnesota there are six investor-owned companies that are regulated by the State Public Utilities Commission and over twenty municipal LDCs that are regulated by cities. The investor-owned utilities serve 95 percent of Minnesota's natural gas customers.

Minnesota's LDCs have the role of providing safe, reliable natural gas service at reasonable rates. They are responsible for:

- Meeting the winter peak demand needs of their ratepayers.
- Identifying the needs of their customers.
- Purchasing gas supplies to meet the needs of customers in a wholesale market that is not regulated.
- Arranging transportation of gas on interstate pipelines that are regulated by the Federal Government.
- Distributing the gas on their own systems to consumers.

Who regulates what

The Federal Energy Regulatory Commission (FERC) regulates the cost of transporting the gas through the three major interstate pipelines that serve Minnesota. Minnesota regulators include the Public Utilities Commission (PUC), the Department of Commerce and the Residential and Small Business Utilities Division of the Office of the Attorney General.

- The PUC approves the rates that consumers pay and reviews the adequacy and cost of LDC's supplies to ensure that the companies make prudent decisions in buying natural gas for their customers.

- The Department of Commerce advocates for all natural gas consumers and the broad public interest in all matters before the PUC and makes recommendations. If a cost appears to be unreasonable, the Department of Commerce will recommend that the PUC not allow such costs to be passed on to consumers.
- The Office of the Attorney General focuses its advocacy on residential and small business gas consumers.

The price of the natural gas itself is not regulated. The going price of natural gas is market driven, meaning the price goes up or down according to the balance between supply and demand.

Department of Commerce's Role in Natural Gas Price Review and Regulation

Minnesota's regulated natural gas utilities charge their customers the same price that they pay to gas producers for the gas that they buy. Gas utilities make no profit on the gas commodity itself or on the costs of transporting it to Minnesota or storing it for future use. Utilities only make a profit on their costs of operating their business. Normally these business-operation costs account for approximately 10% of a customer's bill. The Department of Commerce reviews all of these various types of costs to ensure that customers are charged reasonable prices for their gas service.

Since the price of the natural gas itself accounts for the largest portion of a customer's bill, the Department of Commerce is constantly reviewing natural gas prices charged to Minnesota customers by their state-regulated natural gas utilities. This review is conducted in a number of ways:

- The Department constantly monitors Minnesota gas utility information, natural gas industry actions, natural gas price and supply indexes such as the Department of Energy's Energy Information Administration (EIA) as well as industry information and world events that may impact regional, national or global gas pricing.
- The Department receives and analyzes monthly information from state regulated utilities concerning the price and amount of natural gas charged to customers.
- The Department receives and analyzes information from each utility at the beginning of each of each heating season on the utility's plans to provide service to its customers during peak-use times in the coming winter.
- The Department annually receives data and information that it analyzes and formulates an annual report to the Commission on all aspects of the regulated utilities gas purchasing practices, price-stabilization strategies and resulting overall costs charged to customers.
- In all of its different types of utility information review, the Department's analysis is geared toward ensuring that the utility is charging reasonable prices to its customers. If the Department finds an exception, it provides its analysis to the Public Utilities Commission and recommends that the Commission use its statutory authority to prevent unreasonable or imprudent costs from being charged to customers.

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NEWS RELEASE

FOR IMMEDIATE RELEASE:

January 5, 2006

Contact: Jeff Falk

(651) 296-0001

St. Paul – Governor Tim Pawlenty announced today he has reached agreement with the major utility companies that guarantees that income eligible families who contact the utility will not have their heat shut off this winter. Representatives of Centerpoint and Xcel Energy joined the Governor as he announced the agreement and introduced a package of energy policies aimed at helping families, schools, nursing homes and hospitals deal with high energy prices and Minnesota's cold winter.

"Keeping families warm in winter is not just about comfort, it's about the health and safety of our citizens," Governor Pawlenty said. "No one should be without heat, and a person's financial hardship should not put their heat at risk."

This agreement reduces some of the more onerous elements of the cold weather rule.

In addition to the agreement with the utility companies, Governor Pawlenty also announced the infusion of \$13 million of emergency funding into the state heating assistance program for low-income families, income-eligible seniors and low-income disabled Minnesotans. This new money will be in addition to the \$70 million in energy assistance funding already received this September through the Low Income Home Energy Assistance Program (LIHEAP).

Minnesota LIHEAP helps pay home heating costs for households with the lowest incomes and highest energy costs. Last year the program served 118,000 households with an average assistance amount of \$400 per household.

The additional money will enable the program to serve 126,000 households this year (a 7% increase) with an average assistance amount of \$500 per household (a 25% increase).

"With cold weather approaching and energy prices rising, it's important we make this money available to families immediately," Governor Pawlenty said. "This plan will put more money in the hands of more families when they need it most."

The additional \$13 million for LIHEAP would come from the federal Temporary Assistance for Needy Families (TANF) dollars the state received in September for its outstanding performance in program outcomes (job entry performance; success in the workforce; increase in participation of low-income working families in food stamps).

In addition to home heating assistance funding, the Governor also announced three other initiatives to address this winter's high heating costs:

Promotion of energy programs and kits provided by Minnesota's utility companies

Governor Pawlenty also took the opportunity to promote the various programs available to Minnesota's utility customers to help them save money and energy. Programs include weatherization kits, energy audits and weather stripping. The weatherization kits include tips and

items that can help conserve energy in the home such as compact fluorescent light bulbs and energy efficient shower heads.

Each utility has their own unique program or kit and Minnesotans can contact their energy provider for information on how to access them. Most programs are offered to consumers free of charge.

"Minnesota families should check with their utility to see what programs they offer – energy conservation really does begin at home," Governor Pawlenty said.

Making more money available for energy conservation in homes, schools and nursing homes

Governor Pawlenty is asking the utilities to explore ways to accelerate spending on energy conservation and efficiency. The money could be used to help households pay for energy savings such as furnace tune-ups (or replacement with high efficiency furnaces), insulating attics, sealing window drafts, and programmable thermostats. These improvements will noticeably increase comfort and reduce the amount of energy needed to heat our homes.

The additional money will also help schools and nursing homes receive heating system tune-ups and make sure our nursing homes, hospitals and other public buildings are as energy efficient as they can be.

"Minnesota has one of the nation's most effective home heating conservation and efficiency programs with our natural gas utilities spending \$14 million dollars each year," Pawlenty said. "But we can do more and we can do better."

State buildings to lead by example by cutting energy usage by 10%.

Governor Pawlenty issued an executive order requiring all state buildings to reduce their energy use by 10%. This will be accomplished through several short and long-term energy conservation measures such as lowering the heating temperature set points and raising the cooling set points in state buildings, implementing energy efficiency improvements in existing buildings, and re-commissioning existing state buildings making use of utility company rebates.

In addition, the state will improve energy procurement methods through forward pricing mechanisms and procure alternative fuels during summer months when prices are lower.

Implementing these measures is expected to produce over \$1 million in cost savings that will offset anticipated fuel increases. The Governor also encouraged the University of Minnesota and MnSCU buildings to achieve the same goal.

"State Government consumes a lot of energy and we can lead by example by cutting our energy usage by 10%," Pawlenty added.

EXECUTIVE ORDER 05-16

I, TIM PAWLENTY, GOVERNOR OF THE STATE OF MINNESOTA, by virtue of the authority vested in me by the Constitution and applicable statutes, do hereby issue this executive order: WHEREAS, energy prices including the costs for electric power, natural gas, heating fuel are predicted to rise significantly this year; and

WHEREAS, state government is a major consumer of energy and should be a leader in adopting energy conservation practices, thereby furthering fiscal, environmental and economic development goals, and

WHEREAS, conservation of energy resources are an effective means for mitigating against the demand pressures for energy consumption and for reducing state costs related to increases in energy prices; and

WHEREAS, state agencies are in a unique position to demonstrate to other governmental entities, businesses, organizations and individuals the cost and environmental benefits of energy conservation; and

WHEREAS, reduction and conservation of energy resources is consistent with other executive branch initiatives including Executive Order 04-10 which provides for the use of alternative fuels for the state's fleet and travel needs and Executive Order 04-08 which provides for state departments to take actions to reduce air pollution in daily operations.

NOW, THEREFORE, I hereby order:

1. All state agencies will take measures including, but not limited to the measures set forth in this order, to reduce energy usage in state owned buildings by 10% over the next calendar year.
2. All state agencies must immediately implement the following operational changes to conserve energy and reduce state energy costs:
 - a. Heating temperatures will be set at the following maximum temperatures:
 - i. 68° F to 70° F for all occupied areas and cafeterias;
 - ii. 65° F to 67° F for all lobby corridor and restroom areas;
 - iii. 60° F to 62° F for all building entrances, storage areas and tunnels;
 - iv. Temperature settings for all of the above referenced spaces must be lowered to 60° F to 62° F during non-working hours;
 - v. 55° F for all unoccupied spaces;
 - vi. 55° F for all vacated spaces.
 - b. Cooling temperatures will set at the following minimum temperatures:
 - i. 76° F to 78° F for all occupied space excluding reheat systems;
 - ii. Temperatures settings for air-conditioning turned off or raised to 85° F during nights and weekends.
 - c. Computer rooms, research facilities and special care facilities are exempted from these requirements. Additional building spaces may be exempted from all or part of these requirements, pursuant to the approval of the Commissioner of Administration.
3. State agencies will pursue long term energy conservation measures, which may require capital funding, in state owned buildings utilizing the procedures set forth in Minnesota Statutes, Sections 16C.144 and 16B.32, subdivision 3, including:
 - a. Incorporating Minnesota Sustainable Guidelines for new construction to reduce the long-term cost of operating and maintaining state buildings.
 - b. Incorporating energy efficiency programs provided by utility companies for all new construction.

- c. Implementing energy efficiency improvements in existing buildings through partnering with energy services companies and funding the projects through lease purchase agreements, or other appropriate means.
 - d. Re-commissioning existing state buildings to maximize utility company rebates.
4. State agencies will adopt prudent energy procurement strategies including:
 - a. Procuring alternate fuels for heating during summer months when prices are lower.
 - b. Procuring natural gas and other fuels through Minnesota Statute 16C.143, energy forward pricing mechanisms, beginning fiscal year 2007.
5. For purposes of this executive order, state agencies means any agency as defined in Minnesota Statutes 2004, Section 16B.01, Subdivision 2 which occupies state owned or leased buildings.
6. The University of Minnesota and the Minnesota State Colleges and Universities are strongly encouraged to implement effective strategies to reduce energy consumption and energy costs at their facilities. The Commissioner of Administration will make efforts to share information regarding the strategies implemented pursuant to this order.
7. The Commissioner of Administration with the assistance of the Commissioner of Commerce will be responsible for:
 - a. Communicating the requirements of this order to state agencies;
 - b. Developing procedures to measure the reductions in state energy usage and to monitor compliance with this executive order;
 - c. Developing additional strategies for energy conservation and communicating those strategies to state agencies; and
 - d. Providing information regarding state energy conservation actions to other interested governmental entities, businesses, organizations and individuals.

Pursuant to Minnesota Statutes 2004, Section 4.035, Subdivision 2, this order will be effective fifteen (15) days after publication in the State Register and filing with the Secretary of State and will remain in effect until it is rescinded by proper authority or it expires in accordance with Minnesota Statutes 2004, Section 4.035, Subdivision 3.

Implementation of Governor Pawlenty's Heating Security Initiatives

1. Keeping the Heat On through Utility "No shut off" agreements

Governor Pawlenty worked with major Minnesota utilities to reach an agreement that guarantees that income-eligible families who contact their utility will not have their heat shut off this winter. Utilities that have joined the agreement as of February 1, 2006:

- Xcel Energy
- CenterPoint Energy
- Aquila
- Minnesota Power
- City of Duluth Natural Gas
- Minnesota Municipal Utilities Association Board of Directors

2. Increased Funding for LIHEAP

In November, Governor Pawlenty announced the infusion of \$13 million of emergency funding into the Low Income Home Energy Assistance Program (LIHEAP). The additional funding will allow the Department of Commerce to serve an additional 26,789 households and increase the average assistance amount to \$500 per household (a 25% increase).

3. Increased Energy Conservation

A. Conservation Improvement Program

Through the state's energy Conservation Improvement Program (CIP), Minnesota natural gas utilities will spend an additional \$2.1 million in 2006 to deliver energy conservation programs to Minnesota customers most impacted by high natural gas prices. These programs will help residential customers, schools, nursing homes, hospitals and public buildings be as energy efficient as possible.

The Minnesota Department of Commerce has approved the accelerated CIP spending proposals to provide the following energy conservation measures in 2006:

Aquila – Northern Minnesota Utilities (NMU) - Serving Cloquet and communities in northern Minnesota

- Heating system tune-up incentives (up to \$50 per system) for residential homes;
- 100% rebate for boiler tune ups (up to \$1,500 per building) for schools, non-profits and governmental customers; and
- Increased incentives for boiler tune ups in other commercial and industrial customers (50% up to \$500).

Aquila – People's Natural Gas (PNG) - Serving Eagan, Rochester and other communities in the southern half of Minnesota

- Heating system tune-up incentives (up to \$50 per system) for residential homes;
- 100% rebate for boiler tune ups (up to \$1,500 per building) for schools, non-profits and governmental customers; and
- Increased incentives for boiler tune ups in other commercial and industrial customers (50% up to \$500).

CenterPoint Energy - Serving Minneapolis and its suburbs as well as other communities throughout Minnesota

- Heating system tune-up or replacement for approximately two-thirds of the utility's participants in the Low Income Weatherization Project;
- Hot water heater boiler replacements for low-income customers;
- Increased incentives for boiler tune-ups in K-12 schools;
- Increased incentives for energy audits and engineering assistance for total heating system revamps in K-12 schools; and
- Energy Conservation Seminars to educate customers on energy conservation opportunities.

Great Plains Natural Gas Co. - Serving Fergus Falls, Crookston, Breckinridge and other communities around Minnesota

- Increased incentives for residential furnace rebates;
- 100% boiler tune up costs (up to \$400) for schools, nursing homes, hospitals, clinics and other public buildings; and
- Energy conservation education meetings to educate customers on energy conservation opportunities.

Interstate Power and Light - Serving Albert Lea and other communities in southern Minnesota

- New comprehensive energy audit for residential customers; and
- Outreach to all public buildings to encourage implementation of energy conservation improvements through the utility's shared savings program.

Xcel Energy -Serving St. Paul and its suburbs as well as other communities throughout Minnesota

- Increased consumer education;
- Increased rebates for residential furnaces, boilers and water heaters;
- Reduced co-payments for residential home energy audits;
- Incentives for sealing attic bypasses and adding insulation;
- Weatherization kits for low-income gas customers;
- Increased emergency furnace replacements for low-income customers;
- Water heater replacements for low-income customers;
- Increased furnace rebates for small business customers;
- Increased incentives for commercial/industrial boiler system replacements; and
- Increased incentives (up to \$1000 per boiler) for boiler tune ups in schools, nursing homes, hospitals and public buildings.

B. Public Education and Outreach

The State Energy Office in the Department of Commerce distributes energy conservation information and materials to the public through a variety of methods, including: providing background information and comments for print and broadcast media; staffing information booths at energy fairs, trade shows, conferences, and other public events; responding to telephone inquiries; and maintaining the Department website.

C. Reducing Energy Use in State Buildings

The Department of Administration and the Department of Commerce, State Energy Office have been working jointly to implement Executive Order 05-16, in which the Governor called for a 10% reduction in energy consumption in state buildings. The following is a summation of activities to date and future plans.

Actions by Facility Managers:

- Reduced building temperatures during heating season.
- Increased building temperatures during cooling season.
- Incorporating Minnesota Sustainable Design Guidelines into new state buildings to reduce the long-term cost of operating and maintaining the building.
- Benchmarking buildings to ascertain which buildings need help first, maximizing state funds.
- Increasing partnerships with energy services companies to service more energy efficiency needs in existing buildings.
- Increasing the number of re-commissioned buildings in the state, maximizing utility company rebates.

Actions by State Employees:

- **Saving Energy E-Letter.** A periodic e-mail newsletter has been sent to all state employees, highlighting information about the EO and providing tips for ways that state workers can help to implement the order. Also included is a link to the Saving Energy website. Two issues have been distributed so far, with additional e-letters scheduled for every six weeks.
- **Saving Energy Website.** A simple website has been created (www.savingenergy.state.mn.us) that provides the complete EO, general energy saving tips, and links to energy conservation resources—both within the state system and externally. A “Suggestion Box” e-mail link is also included, where workers can send their suggestions for energy saving in state buildings. The responses to these suggestions are presently being compiled into a FAQ page for the website.
- **Energy Fairs.** The State Energy Office will hold several energy fairs at state building locations, distributing information on ways to save energy—at home as well as at work. Materials to include print-outs of the EO, selected Energy Guides, and consumer CDs.

Specific Initiatives:

Several energy saving proposals are being considered that may involve new products or new procedures, including computer sleep and shut down options, Vendormisers/timers for reducing energy use from vending machines, replacement of incandescent lamps with CFLs or LEDs, motion sensors for lighting in infrequently used spaces, replacing appliances/equipment with ENERGY STAR rated appliances, switchplate cover and other stickers that remind people to turn lights and other equipment off when not in use.

Weatherization Assistance Program

The Weatherization Assistance Program (WAP) provides conservation services to low income households throughout Minnesota. WAP is federally funded through the US Department of Energy (DOE). Priority for program services is given to the elderly, disabled individuals and households with high heating costs. WAP services are provided through a delivery network that consists of 24 community action agencies, 6 tribal governments, a housing rehabilitation authority and one local nonprofit organization. Weatherization services may include installing insulation, sealing air leaks, increasing the efficiency of the heating and heat distribution systems, safety improvements on the dwelling's mechanical system and client energy education. To be eligible for this program, the household must be at or below 50% of the Minnesota median guidelines.

Funding

Weatherization is provided by annual Congressional appropriation. Over the past five years an average of \$9.25 million in DOE WAP funds has been allocated to Minnesota; over the past ten years the average is \$6.235 million. A maximum of ten percent of the funds received by the state may be used for administration. Currently local program administrators receive 6.7% while the state uses 3.3% for program administration, which includes training and technical assistance for the local administrators.

WAP also receives funding from the Low Income Energy Assistance Program (LIHEAP). Historically, the Minnesota LIHEAP program sets aside 5% of its budget for weatherization work (0-20% is allowed by the federal program), understanding that doing weatherization measures on homes may help to permanently bring down energy costs for a home. In this current year, the WAP received \$3.87 million from LIHEAP.

Minnesota also supplements WAP funding with revenues from its petroleum inspection fee and propane excise tax. In the current fiscal year, these funds will provide approximately \$600,000 for weatherization activities in homes heated with oil or propane.

Other means of weatherization

One other source of weatherization in the state comes through the utility low-income Conservation Improvement Programs. In 2005, utilities worked with the various community action agencies, tribes and nonprofits to provide \$1.65 million for use in weatherization activities.

Background on LIHEAP

The Minnesota Energy Assistance Program (EAP) is a federal block grant funded through the Low-Income Home Energy Assistance Program (LIHEAP). The block grant legislation (Title XXVI of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, as amended) gives States broad latitude to develop programs that assist low income households meet their immediate home energy needs. On the federal level, the program is administered in the U.S. Department of Health and Human Services. (See Health and Human Services' web site at [http://www.acf.dhhs.gov/programs/liheap/.](http://www.acf.dhhs.gov/programs/liheap/))

Program components required or allowed by the LIHEAP Act are:

- Outreach
- Assistance with home energy costs
- Intervention in energy crisis situations
- Provision of low-cost residential weatherization and cost-effective energy-related home repair and
- Planning, developing, and administering the State's program, including leveraging programs.

Federal LIHEAP Intentions

The LIHEAP Act lists the following program intentions:

- "to assist low-income households, particularly those with the lowest incomes, that pay a high proportion of household income for home energy, primarily in meeting their immediate home energy needs."
- to reserve "a reasonable amount based on data from prior years . . . until March 15 of each program year for energy crisis intervention."
- to "conduct outreach activities designed to assure that eligible households, especially households with elderly individuals or disabled individuals, or both, and households with high home energy burdens, are made aware of the assistance available under this title."

Source: Title XXVI of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, as amended

State EAP Intentions

The Policy and Procedure Manual for the Minnesota Energy Assistance Program lists the following program intentions, as developed by the EAP Task Force in 2001:

- To meet energy needs through collaboration
- To administer a universally recognized and accepted program
- To provide safety and comfort to eligible households
- To empower participants
- To offer simple access to program services
- To provide quality service
- To reach those who qualify

Service Delivery

In Minnesota, EAP is administered by the Office of Energy Assistance Programs in the Minnesota Department of Commerce (DOC). DOC has statewide administrative authority over EAP including program and policy development, training and disbursing financial resources as well as monitoring for compliance, data collection and reporting.

The services are delivered by local providers who contract with DOC to determine eligibility, approve payments and provide advocacy, outreach and referral services. 38 local agencies comprising community action program, counties, Indian Tribes and non-profits cover all areas of the State.

Services

In Minnesota, eligibility is 50% of the State Median Income. For a family of four, that is \$38,364. In Minnesota, as well as nationally, LIHEAP serves about 1/3 of the eligible population. LIHEAP targets seniors, disabled and families with children 5 year old and under.

LIHEAP helps eligible households meet their energy needs by providing grants to lower their energy burden. Grants range from \$100-\$1200 depending on family size, income and fuel consumption. The average grant last year was \$403. The average grant for this winter is planned for \$500 to offset rising energy costs. Related services include additional funds in crisis situations and limited funds for furnace repair or replacement. Advocacy services to do outreach, referral and advocacy are also available.

Improvements for FFY2005

Last year DOC successfully developed and launched a new computer system called eHEAT. eHEAT centralized data collection and payments, increasing the efficiency of service provision for both local providers and energy vendors. Maybe more importantly to the customers, eHEAT reduced the time between application processing and receipt of the benefit.

Improvements for FFY2006

- **eHEAT**--numerous enhancements to eHEAT will increase efficiencies ((for example reducing application processing from 8 steps to 4 steps)
- **Centralize consumption data collection**--With full eHEAT implementation this year, collection of energy consumption data (one of the key factors in developing the benefit amount) for most households is now centralized and automated.
- **Primary Heat Benefit Amount Increase**--The average Primary Benefit amount will increase from \$400 to \$500. This is the first increase in several years.
- **Scheduled Payments**-- Most households will receive four payments spread over four months rather than bulk payment.
- **Energy Related Repairs**-- FFY2006 introduces an average expenditure limit for Energy Related Repairs of \$2,000 per household. The Statewide average for FFY2005 is \$1260.
- **Crisis**--The Crisis program introduces incentives for households to develop and maintain payment plans and sign up for the Cold Weather Rule. Basic crisis benefit amount will be up to \$300. Additional up to \$200 for a total up to \$500 will be available to households meeting the incentives.
- **Assurance 16**--Funding for Assurance 16 activities increases from 3% to 5% (a 66.6% increase. This year Assurance 16 activities focus on supporting households' efforts to pay a reasonable amount each month to their energy vendors.
- **Administration**-- A change in the distribution of administration funds between State and local service providers moving .37% from the local service providers to the State.

Budget for Low Income Home Energy Assistance Program

Federal Fiscal Year 2006 (October 1, 2005- September 30, 2006)

Line Item	Budgeted Amount	Percentage
Primary Heat	\$72.9M*	71.8%
Crisis	\$6.0M	5.9%
Energy Related Repairs	\$6.0M	5.9%
Reach Out for Warmth	\$.4M	0.4%
Weatherization Transfer	\$3.9M	3.8%
Assurance 16	\$4.1M	4.0%
Total Administration	\$8.2M	8.0%
<i>State Administration</i>	\$1.7M	1.6%
<i>Local Service Provider Administration</i>	\$6.5M	6.4%
TOTAL	\$101.5 Million	

* The \$72.9 million available for direct billing paying assistance in the winter of '05-06 is the total from the following sources:

- \$53.1M of the \$81.7M in LIHEAP funds MN received through January 12, 2006.
- \$13.4M Governor Pawlenty dedication of TANF funds to LIHEAP
- \$ 6.4M Carry-over and internal reallocation of funds within the LIHEAP program
- \$72.9M

Cost Category Descriptions

Primary Heat: Direct payments provided to utilities on behalf of the households

Crisis: Direct payment provided to utilities to households in "no heat" or "threaten no heat" situations.

Energy Related Repair: Energy Related Repair is direct financial assistance to households for home heating plant repair and replacement.

Reach Out for Warmth: Reach Out for Warmth (ROFW) provides matching funds- 2 for 1- for locally raised donations. Eligibility is 60% of State Median Income. Direct payments to utility on behalf of the households.

Weatherization Transfer: This is a transfer of LIHEAP funds to the Weatherization program for low cost conservation and other energy related repairs. Services are provided directly to the home of eligible households.

Assurance 16: Funds provided to local service providers for outreach, referral and advocacy services.

Administration: Up to 10% of the available regular grant is available for administrative costs. Administrative costs for LIHEAP are all activities other than direct household services. 8% is available for local service providers and 2% is available for state activities.

LIHEAP in Minnesota: A History

Winter Heating Season	Total LIHEAP Funding Awarded	Total spent on direct heating bill payments	Average Household Heat Bill Payment	Total Household served
2005-06	\$81.7M (as of 2/2/06)	\$72.9M*	\$500	145,800**
2004-05	\$84.7	\$47.5	\$404	117,698
2003-04	\$72.1	\$49.6	\$445	111,257
2002-03	\$78.3	\$50.0	\$408	122,327
2001-02	\$69.3	\$47.0	\$420	111,625
2000-01	\$61.1	\$58.9	\$534	110,204
1999-00	\$65.0	\$34.8	\$414	84,105
1998-99	\$45.9	\$25.7	\$286	89,924
1997-98	\$39.2	\$25.8	\$316	81,486
1996-97	\$52.6	\$41.6	\$462	89,280
1995-96	\$42.1	\$28.0	\$322	87,080

* The \$72.9 million available for direct billing paying assistance in the winter of '05-06 is the total from the following sources:

\$53.1M of the \$81.7M in LIHEAP funds MN received through January 12, 2006.

\$13.4M Governor Pawlenty dedication of TANF funds to LIHEAP

\$ 6.4M Carry-over and internal reallocation of funds within the LIHEAP program

\$72.9M

**Projected

Households Given Financial Assistance by Percentage of Poverty Level ¹

Winter Heating Season	Total Households Served ²	Under 75% poverty ³	75%-100% poverty	101%-125% poverty	126%-150% poverty	Over 150% poverty
2004 -	117,698	36,221	25,216	20,068	16,207	19,986
2003 -	111,257	32,121	24,700	18,793	15,368	20,275
2002 -	122,327	35,704	27,264	20,395	16,514	22,450
2001 -	111,625	33,107	26,080	19,319	15,268	17,851
2000- 2001	110,204	34,227	29,909	20,481	14,042	11,545
1999 -	84,105	25,877	22,911	15,677	10,764	8,876

¹The Household Report is a required report submitted to the U.S. Department of Health and Human Services in draft on September 1 and as a final version on December 15.

²Number of households who received the basic Energy Assistance payment (called Primary Heat).

³The Energy Assistance Program uses the poverty guidelines published during the previous Federal Fiscal Year.

Eligibility

To be eligible for EAP in Minnesota, households' incomes must not exceed 50% of the federally defined State Median Income. The LIHEAP Act also stipulates that all households with incomes of 110% or less of the Federal Poverty Guidelines must be income eligible. This year, 110% of Poverty exceeds 150% of the State Median Income for households with 16 or more members, as shown by the following table.

HH Size	50% SMI	110% Poverty	100% Poverty	150% Poverty	200% Poverty
1	\$19,948	\$10,527	\$9,570	\$14,355	\$19,140
2	\$26,088	\$14,113	\$12,830	\$19,245	\$25,660
3	\$32,224	\$17,699	\$16,090	\$24,135	\$32,180
4	\$38,364	\$21,285	\$19,350	\$29,025	\$38,700
5	\$44,504	\$24,871	\$22,610	\$33,915	\$45,220
6	\$50,640	\$28,457	\$25,870	\$38,805	\$51,740
7	\$51,792	\$32,043	\$29,130	\$43,695	\$58,260
8	\$52,944	\$35,629	\$32,390	\$48,585	\$64,780
9	\$54,096	\$39,215	\$35,650	\$53,475	\$71,300
10	\$55,244	\$42,801	\$38,910	\$58,365	\$77,820
11	\$56,396	\$46,387	\$42,170	\$63,255	\$84,340
12	\$57,548	\$49,973	\$45,430	\$68,145	\$90,860
13	\$58,700	\$53,559	\$48,690	\$73,035	\$97,380
14	\$59,848	\$57,145	\$51,950	\$77,925	\$103,900
15	\$61,000	\$60,731	\$55,210	\$82,815	\$110,420
16	\$64,316	\$64,317	\$58,470	\$87,705	\$116,940

Sliding Scale Benefits for FY05 Minnesota Energy Assistance Program

Consumption used was the average for the EAP Population for the fuel type last winter

Household Size = 1

% of State Median Income	Annual Income	Natural Gas	Liquid Propane Gas
		Benefit	Benefit
25% or less	\$ 9,975 or less	\$ 560	\$784
> 25% to 30%	\$9,976 - \$11,970	\$ 467	\$654
> 30% to 35%	\$11,971 - \$13,965	\$ 373	\$523
> 35% to 40%	\$13,966 - \$15,960	\$ 280	\$365
> 40% to 50%	\$15,961 - \$19,950	\$ 187	\$261

Household Size = 4

% of State Median Income	Annual Income	Natural Gas	Liquid Propane Gas
		Benefit	Benefit
25% or less	\$19,183 or less	\$ 560	\$784
> 25% to 30%	\$19,184 - \$23,019	\$ 467	\$654
> 30% to 35%	\$23,020 - \$26,856	\$ 373	\$523
> 35% to 40%	\$26,856 - \$30,694	\$ 280	\$365
> 40% to 50%	\$30,695 - \$38,366	\$ 187	\$261

Households Given Financial Assistance by Targeted Category¹

Winter Heating Season 2004 - 2005	60 years or older ²	Disabled ³	Age 5 years or under ⁴
2004 - 2005	36,331	29,974	24,194
2003 - 2004	35,016	21,929	27,490
2002 - 2003	35,651	19,102	32,004
2001 - 2002	33,020	16,524	29,959
2000 - 2001	35,904	21,501	28,885
1999 - 2000	27,565	16,480	22,123

¹The Household Report is a required report submitted to the U.S. Department of Health and Human Services in draft on September 1 and as a final version on December 15.

²The Low Income Energy Assistance Act targets elderly and defines that as 60 years or older. This data is the age of the household member on the date of the application

³The Low Income Energy Assistance Act targets households containing at least one disabled person. Applicants for EAP in Minnesota declare their disability.

⁴The Low Income Energy Assistance Act targets households containing at least one child under 6 years of age. This data is the age of the household member on the date of the application.

Fuel Source Used by Households Served¹

Winter Heating Season	Natural Gas	Electricity	Oil	Propane/ LP	Municipal Steam	St. Paul District Heating	Wood	Other
2004 - 2005	70,841	12,534	12,328	18,772	385	194	1,306	1,274
	60.22%	10.66%	10.48%	15.96%	0.03%	0.02%	1.11%	1.08%

¹The fuel type declared by the household to be the primary heat source