

August 8, 2018

Mr. Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E015/M-11-409

Dear Mr. Wolf,

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Minnesota Power's Sixth Annual Report on its Pilot Rider for Customer Affordability of Residential Electricity.

The report was filed on May 26, 2017 by:

M. Micheline Bayiha  
Cost & Pricing Analyst Senior  
Minnesota Power  
30 West Superior Street  
Duluth, Minnesota 55802

The Department recommends that the Minnesota Public Utilities Commission (Commission) **accept the report and approve the requested tariff modifications, pending receipt of additional explanation, as detailed in the attached comments.** The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN L. PEIRCE  
Rates Analyst Coordinator

SLP/ja  
Attachment

## Before the Minnesota Public Utilities Commission

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### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/M-11-409

#### I. BACKGROUND INFORMATION

On May 5, 2011, Minnesota Power (MP or the Company) filed a request for approval of a Pilot Rider for Customer Affordability of Residential Electricity (CARE Rider) consistent with the Minnesota Public Utilities Commission's (Commission) November 2, 2010 *Findings of Fact, Conclusions of Law and Order* in the Company's previous rate case (Docket No. E015/GR-09-1151).

On September 26, 2011, the Commission issued its *Order Authorizing Pilot Program and Setting Further Requirements*. In its Order, the Commission approved the CARE Rider with a flat monthly surcharge of \$0.65 per retail electric customer, excluding customers who qualify for the federal Low Income Home Energy Assistance Program (LIHEAP). The Commission directed the Company to submit a proposal at the time of its first annual review filing for a surcharge that is tiered according to class, as an alternative to the flat-rate surcharge allocated on a per-customer basis.

On July 18, 2013, the Commission issued its *Order Accepting Report as Supplemented, Adopting Reporting Requirements, and Modifying Renewal Date*. In its Order, the Commission adopted the following reporting requirements for the CARE Program:

- Customer payment frequency
- Disconnection
- Payment amount
- Customer payment history
- Arrearage level
- Coordination with other available low-income payment assistance programs
- Participant billing impacts
- Participant electric usage

On July 3, 2014, the Commission issued an Order accepting MP's second annual CARE Rider report, and removing the 5,000-participant cap on the program, eliminating the requirement that LIHEAP-eligible customers re-enroll annually, and requiring MP to provide additional

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comparison data on customer arrearages and an arrearage forgiveness component in its next annual report.

On July 15, 2015, the Commission issued its *Order Accepting the Third Annual Report and Approving Arrearage Forgiveness Component*.

On July 13, 2016, the Commission issued its *Order Accepting the Fourth Annual Report*.

On May 26, 2017, MP filed its Fifth Annual Report. On January 5, 2017, the Commission issued its *Order Accepting Fifth Annual Report and Program Changes, and Requiring Meetings*.

On May 31, 2018, MP filed its Sixth Annual Report.

## **II. SUMMARY OF THE FILING**

### **A. 2017 PROGRAM YEAR SUMMARY**

The CARE Program provides discounted energy rates to Minnesota Power residential customers qualified for the Low Income Heating Energy Assistance Program (LIHEAP), and to reduce participating customers' arrearages over time. Beginning in May 2017, MP took over administration of the Program following the resignation of the Arrowhead Economic Opportunity Agency as program administrator. While initially intended to be interim in nature, MP proposes to continue as program administrator, citing program efficiencies it has found as a result of taking on administrative responsibilities.

MP's latest annual report covers CARE Program participation from October 1, 2016 to September 30, 2017 (2017 program year). An average of 4,673 customers participated in the CARE program during the 2017 program year compared to 5,004 customers in 2016. A total of \$908,052 in bill credits and discounts was provided during the latest program year compared with \$1,016,912 in program year 2016. The average monthly discount provided to customers was \$17.28 or \$207 annually.

In addition to its annual report on program participation, MP is requesting approval to:

- Make its CARE Program a permanent rider rather than a pilot rider;
- Revise service conditions requiring that CARE participants be removed from the program after two consecutive missed payments;
- Maintain MP's administration of the program;
- Expand availability of the discount to all identified LIHEAP-qualified customers with a corresponding increase in the monthly CARE affordability surcharge for each rate class, phased in over three years.

**B. TRACKER UPDATE**

MP provided an update on its CARE Rider tracker balance. The CARE Program discounts are funded by a monthly Affordability Surcharge on non-LIHEAP-qualified residential customers and other rate classes, except for the Lighting class customers. For program year 2017, the Company collected \$972,245 from the Affordability Surcharge. Table 1, below summarizes the CARE Program tracker for program year 2017.

**Table 1: CARE Program Tracker Summary  
Program Year 2017**

Tracker Balance Brought Forward	\$849,479
Affordability Surcharge collected	\$972,245
Total Discount provided to Customers	(\$908,052)
Total Arrears Forgiveness Company Match	(\$61,190)
Accrued Interest	\$32,323
Total Tracker Balance (9/30/17)	\$884,804

Currently, MP does not recover the administrative costs of its CARE Program through its tracker account. With the shift in May 2017 from an outside administrator to Company administration, MP states its administrative costs associated with the program are recovered through its general operating costs.

**III. DEPARTMENT ANALYSIS**

**A. COMPLIANCE WITH MINN. STAT. §216B.16, SUBD. 15(B)**

Minn. Stat. §216B.16, subd. 15(b) requires that low-income affordability programs meet the following requirements:

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

The Minnesota Department of Commerce, Division of Energy Resources (Department) addresses each of these requirements below.

1. *Lower the percentage of income that participating households devote to energy bills.*

MP relies on information provided by the Energy Assistance Program at the Department since the Company does not track CARE Program participants' bills relative to their income. According to the information obtained by MP, the percentage of income MP LIHEAP customers devoted to their electric bills decreased from 5.10% in 2016 to 5.00% in 2017.

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

In the past, MP has measured compliance based on bills paid as a percentage of bills issued. For the program year 2017, MP focused on the percentage of the billed amount that a customer paid because it provides a better means of comparison over time, and between customer groups. For program year 2017, CARE participants paid 71 percent of the billed amount compared with 69 percent of the billed amount paid by LIHEAP, non-CARE participants. The Department agrees with MP that measuring the percent of the bill being paid provides a better understanding of whether a customer is falling further behind in the payments than does a measure of the number of bills paid. Based on this measurement, it appears that MP's CARE Program increased participants' payments in comparison with what would have been paid absent the program during the 2017 program year.

3. *Decrease or eliminate participating customer arrears*

MP began offering an arrearage forgiveness plan in 2016. Program year 2017 represents the first full year for the arrearage forgiveness component. For program year 2017, MP matched \$61,190 in arrearage payments from 1,982 customers, for an average of \$31 per month per customer. In total 1,982 CARE program customers participated in the arrearage forgiveness program.

4. *Lower utility costs associated with customer account collection activities*

For program year 2017, MP reported a disconnection rate of 3 percent for CARE Program participants compared with 16 percent for LIHEAP non-CARE customers, and 2 percent for all residential customers. The Department concludes that the CARE Program reduces disconnections for participating customers which likely reduces collection activity costs.

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

MP collaborates with other community agencies to provide information and energy-efficient products and services to income-eligible customers through its Energy Partners program. The

Company also continued its annual “Listening Session” with agencies delivering programs to low-income customers to obtain feedback and suggestions.

*B. PROGRAM CHANGES*

*1. Participation in CARE after missed payments*

Currently, customers enrolled in the CARE Program who miss two consecutive payments are removed from the Program and placed on the standard Residential rate. MP proposes to permit customers to remain in the program if more than two consecutive payments are missed. Rather than remove them from the CARE Program, MP proposes to work with customers who have missed payments to establish a payment program. In the event the customer reaches the disconnection stage, MP states that it would continue to follow its standard disconnection process.

The Department supports MP’s proposal to continue customers with missed payments on the CARE Program. Customers unable to keep up with payments even with the discount are likely to fall even farther behind on the standard Residential rate schedule. However, Minnesota Statutes, section 216B.098, subd. 3 requires that:

A utility shall offer a payment agreement for the payment of arrears. Payment agreements must consider a customer’s financial circumstances and any extenuating circumstances of the household. No additional service deposit may be charged as a consideration to continue service to a customer who has entered and is reasonably on time under an accepted payment agreement.

Therefore, to be clear, MP is already required to offer payment plans to its residential customer, whether or not the customer is a participant in the CARE Program. Nevertheless, the Department recommends approval of MP’s proposed change.

*2. Adjustment to Arrearage Forgiveness*

MP proposes to adjust its arrearage forgiveness to reflect new arrearages that may occur once the customer is participating in the CARE Program. As with the proposal to continue CARE Program participation in the event of a missed payment, MP’s proposal to adjust its arrearage forgiveness amounts in the event of new arrearages recognizes that customers who are struggling to make payments even with the CARE Program discount are unlikely to improve their situation if moved to the standard Residential rate schedule. The Department recommends approval.

### *3. Cold Weather Rule Protection and the CARE Program*

Initially, MP's customer information system was unable to identify customers receiving Cold Weather Rule protection and participation in the CARE Program. MP has updated its systems so that customers who are LIHEAP-qualified and seek Cold Weather Rule protection can also enroll in CARE. MP states that dual participation in both programs will continue to create some problems because CARE Program participants will not be able to obtain the arrearage forgiveness component under the CARE program if receiving Cold Weather Rule protection. Under the arrearage forgiveness component, arrearages are spread over a 24-month period. In contrast, the Cold Weather Rule payment plan considers the customer's ability to pay. The Company proposes to report on the effect this modification has on arrearages in its next annual report.

The Department is generally supportive of MP's proposal, but requests that the Company, in reply comments, provide additional explanation and examples of how customers with past-due payments would be affected by the loss of the arrearage component portion of the CARE program if seeking Cold Weather Rule protection.

### *4. Expanded Enrollment and Affordability Surcharge Changes*

Currently the CARE Program is only available to LIHEAP-eligible customers who have applied for the program. MP proposes to automatically enroll LIHEAP-eligible customers in the CARE Program and eliminate the separate application process. MP states that it will reconcile customers who have not renewed LIHEAP participation with their CARE Program participation once a year. MP states it has approximately 5,000 LIHEAP-eligible customers who are not enrolled in CARE, and could obtain relief from this program change.

The Department supports MP's proposal to automatically extend CARE program participation to all LIHEAP-eligible customers because doing so will allow the Company to focus its resources on identifying LIHEAP-eligible customers and reduce the administrative costs of obtaining additional enrollment in CARE. In order to preserve the customer's ability to choose whether to participate in the CARE Program, and in light of the discussion above regarding the interplay between the CARE Program and the Cold Weather Rule, and the proposed program change that allows more than two consecutive missed payments, the Department requests that MP discuss in reply comments how the Company could enable LIHEAP-eligible customers to opt out of the CARE Program.

### *5. Ending the CARE Program's Pilot Status*

The Department does not oppose MP's request to classify the CARE Program as a standard rider offering. Whether or not the program is in a pilot phase, the Commission can continually review program results and make appropriate programmatic changes. Arguably, there are

sufficient programmatic changes proposed in the 6<sup>th</sup> Annual Report to merit continuing the pilot status until there is sufficient time to review the results of those changes. The Commission could decide to continue the CARE Program's pilot status until such time as there are anticipated to be no further substantive changes. The Department recommends that MP be directed to continue filing annual compliance reports whether or not the CARE Program Rider is considered a pilot or a permanent offering.

*C. AFFORDABILITY SURCHARGE*

The CARE Rider is funded through an Affordability Surcharge. MP provided an estimate of the Affordability Surcharge using the methodology approved by the Commission in its December 3, 2012 Order in this Docket<sup>1</sup>. In that methodology, the Commission approved allocating the revenue requirement necessary to fund the CARE Program among the affected customer classes<sup>2</sup> based on their share of customer charge revenues. As noted above, MP estimated a September 30, 2017 tracker balance of \$884,804, which is higher than its previous tracker balance of \$849,479.

MP offered three options for raising the Affordability Surcharge; Option A phases in the increase over 3 years; Option B increases the Surcharge in years 1 and 3, and also assumes 50 percent of the estimated tracker balance is available to offset some expenses going forward; and Option C phases in the increase over two years. Table 2, below summarizes MP's proposed options.

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<sup>1</sup> *In the Matter of Minnesota Power's Petition for Approval of a Pilot Rider for Customer Affordability of Residential Electricity*, Docket No. E015/M-11-409, Order Approving Changes to Customer Affordability Program and Setting Further Requirements.

<sup>2</sup> Lighting class customers and residential customers participating in the CARE Program are exempt from the Affordability Surcharge.



**Table 2: Summary of Affordability Surcharge Proposals**

Customer Class	Current Charge	Option A		
		Year 1	Year 2	Year 3
Residential	\$0.51	\$0.92	\$1.10	\$1.20
General Service	\$0.67	\$1.22	\$1.50	\$1.60
Lg. Light & Power	\$10.81	\$24.00	\$25.00	\$26.00
Lg. Power	\$1,130.72	\$1,900.00	\$2,400.00	\$2,740.00
Municipal Pumping	\$0.67	\$1.22	\$1.50	\$1.60
		Option B		
Residential		\$1.00	\$1.00	\$1.20
General Service		\$1.36	\$1.36	\$1.60
Lg. Light & Power		\$24.50	\$24.50	\$26.00
Lg. Power		\$2,150.00	\$2,150.00	\$2,740.00
Municipal Pumping		\$1.36	\$1.36	\$1.60
		Option C		
Residential		\$0.83	\$1.23	
General Service		\$1.08	\$1.62	
Lg. Light & Power		\$17.57	\$26.19	
Lg. Power		\$1,836.81	\$2,738.25	
		\$1.08	\$1.62	

The Department has a small preference for Option B because it entails a year of rate stability during Year 2 of the Program, and would enable a more thorough review of any rate changes before Year 3 rates are implemented, but is agreeable whatever length of time over which the Commission chooses to spread the rate increases. Option B also includes an assumption that 50 percent of the current tracker balance remains available to offset some of the first year costs. Options A and C do not assume any remaining tracker balance carried forward. The Department recommends that whatever Option the Commission chooses to use that it direct MP to include the estimated tracker balance at September 30, 2018 in its calculation of the rates.

**IV. DEPARTMENT RECOMMENDATIONS**

The Department recommends acceptance of Minnesota Power’s Sixth Annual Report on its CARE Program.

The Department requests that Minnesota Power provide the following in reply comments:

- additional explanation along with examples of how CARE customers with past-due payments would be affected by the loss of the arrearage component portion of the CARE program if seeking Cold Weather Protection; and
- an explanation as to how the Company could enable LIHEAP-eligible customers to opt out of the CARE Program.

At this time, the Department recommends the Commission approve the following modifications to the CARE Rider:

- Make the CARE Program a permanent rider rather than a pilot rider; alternatively, continue the CARE Program's pilot status until such time as there are anticipated to be no further substantive changes;
- Revise service conditions that require CARE participants to be removed from the program after two consecutive missed payments, and permit adjustment of the arrearage forgiveness amounts;
- Maintain MP's administration of the program;
- Expand availability of the discount to all identified LIHEAP-qualified customers; and
- Option B for increasing the Affordability Surcharge. If the Commission adopts a different option for spread the rate increases, require MP to include its estimated September 30, 2018 tracker balance in the calculation of rates under those options.

/ja

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Comments**

**Docket No. E015/M-11-409**

**Dated this 8<sup>th</sup> day of August 2018**

**/s/Sharon Ferguson**

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