August 10, 2015

VIA ELECTRONIC FILING

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

RE: Minnesota Energy Resources Corporation's 2015 Evaluation of its Gas Affordability Program, Docket No. G-011/M-15-539

Reply Comments of Minnesota Energy Resources Corporation

Dear Mr. Wolf:

On July 28, 2015, the Minnesota Department of Commerce, Division of Energy Resources ("Department") filed comments in the above-referenced docket recommending that the Minnesota Public Utilities Commission ("Commission") approve Minnesota Energy Resources Corporation's ("MERC" or the "Company") petition for approval of its Gas Affordability Program ("GAP") evaluation report with modifications. Additionally, the Department requested that MERC provide additional information in Reply Comments.

MERC thanks the Department for its review. MERC submits these Reply Comments to respond to the requests for additional information from the Department and to respond to the Department's recommendations.

1. Frequency of GAP Customer Payments

In its comments, the Department concludes MERC has not shown that, for 2011 through 2014, the GAP was a contributing factor in the increased frequency of GAP customer payments for GAP participants. As a result, the Department concludes the GAP may not be satisfying the criteria of increasing participant customer payments over time by increasing the frequency of payments, as required by Minn. Stat. §216B.16, subd. 15 (b)(2). The Department requests that MERC discuss in its reply comments potential reasons for the relatively stable payment frequency among LIHEAP customers compared with the declining payment frequency of GAP customers, and identify any potential GAP design changes that could improve payment frequency.

GAP customers who miss two consecutive monthly payments are removed from MERC's program. As a result, GAP customers may miss one payment but in general do not miss two consecutive payments. This is reflected in MERC's consistently high retention rates for GAP (96% in 2011, 97% in 2012, 95% in 2013, and 92% in 2014). Additionally, customers who miss a single payment will pay both their current month balance and the prior month balance and as a result, the GAP program has been very successful in increasing overall payments by participating customers.

Although the requirement that GAP customers who miss two consecutive monthly payments will be removed from the Program likely contributes to the low overall number of payments received by GAP customers, MERC believes that program modification to require removal after a single missed payment would be unreasonable because many more customers would default from the Program and such requirement would significantly deter participation. Further, it is not clear the extent to which the decrease in frequency of payments in 2014 was an outlier caused by the polar vortex and resulting increase in customer bills. Taking 2014 out of consideration, GAP payment frequency through 2013 was tracking closely with LIHEAP payment frequency over that period of time. MERC will continue to monitor the situation on an annual basis, and will reevaluate based on the frequency of payments per GAP customer as compared to LIHEAP after the frequency numbers for 2015 are completed.

Finally, as discussed in MERC's evaluation, the payment data for the 2014 GAP enrollees is difficult to compare with overall payments the last few years because of the increase in enrollments. The number of full payments recorded each month increased because most Energy Assistance credits are made over four months. MERC also saw a substantial increase in the number of LIHEAP recipients in 2014. Similar to GAP, the increase in LIHEAP enrollees increased the number of payments in 2014. It has been difficult to draw conclusions in comparing the monthly payment practices of these three customer groups because of the many uncontrolled factors that contribute to the amounts and payment frequency such as growing credit balances on participants' accounts, LIHEAP funding levels and payment schedules, weather, gas cost, number in household, and fluctuation in household income.

2. Cost Effectiveness Evaluation

The Department recommends that the Commission exclude potential societal benefits or costs identified by the Company from any cost effectiveness analysis of GAP, and use the tariffed financial evaluation as an indication of the GAP's cost-effectiveness.

MERC has never attempted to quantify the societal benefits or costs, but included those amounts as a means for demonstrating the qualitative benefits of GAP, in addition to the quantitative analysis provided. MERC did not intend for the societal benefits to be a part of any quantitative analysis, but MERC does believe these societal benefits reflect reasons for continued administration and success of GAP.

3. Foregone LIHEAP Emergency Benefits

The Department requests MERC discuss the magnitude of the "foregone LIHEAP emergency benefits" it identified and the drivers of the increase in the number of GAP participants receiving LIHEAP grants in its reply comments.

As MERC has indicated previously, there is no doubt that the emergency energy assistance benefits of GAP participants have been impacted due to the GAP benefits, because enrollment in GAP provides protection against any collection activity to allow households to avoid crisis scenarios. That said, the Company cannot make a fair and accurate analysis of the overall reduction of emergency benefits to GAP customers because there are too many variables impacting a customer's ability to qualify for emergency benefits. For example, the actual amount of potential assistance, including the amount of available funding, the number of customers that apply for emergency assistance, and how the county agency determines need and pays benefits.

As MERC has described in the past, quantitative analysis is difficult because participation varies year-to-year. Further, a colder than normal winter and higher application trends impact the number of customers the Program serves. The weather's impact on GAP and LIHEAP participation in 2014 demonstrates this effect. The 2014 winter was one of the coldest in recent memory. The cold weather drove up customer bills, and increased other customer costs, including repairs. The increase in both GAP participation and GAP recipients receiving LIHEAP grants in 2014 reflects this weather anomaly.

MERC – GAP Recipients of LIHEAP Grants

GAP Program Year	# of Recipients Grant	Grant Totals
2015	1,916*	$356,961*
2014	2,015	$761,268
2013	1,192	$353,863
2012	1,246	$290,290

* Received through 5/31/15

The colder than normal weather in the winter of 2014 had a significant impact on all parts of MERC's business, including GAP participation. As demonstrated in the above chart, until 2014, the number of GAP participants received LIHEAP grants was decreasing, which would reflect in decreased need for emergency benefits by GAP participants. MERC notes that then number of GAP recipients also receiving LIHEAP grants has gone down from 2014 to 2015, but it is not clear the impact that the winter of 2014 is still having on customer trying to recover. MERC will continue to monitor this impact to determine if the GAP participants received LIHEAP grants continues to decrease, thus reflecting a decrease in use of those emergency benefits.

4. Modifications to MERC's GAP

In its petition for approval, MERC proposed to extend its GAP for an additional four years, to reduce its annual GAP budget from $1 million to $750,000, and to modify its GAP surcharge from $0.00441 to $0.00158, effective January 1, 2016. In its comments, the Department supported the four year extension of GAP as well as MERC's proposed budget reduction. With regard to the GAP surcharge, however, the Department recommended a GAP surcharge of $0.00 per therm beginning the month following the Commission order in this proceeding. Further, the Department recommended a change in MERC's carrying charge on MERC's GAP tracker account.

a. GAP Surcharge

As opposed to the $0.00158 surcharge suggest by MERC, the Department recommends the Commission set the GAP surcharge at $0.00 per therm, to be effective beginning the month following the Commission's Order in this matter

While MERC appreciates the Department's rationale for recommending a reduction of the GAP surcharge to $0.000, MERC does not believe such a change is warranted at this time. MERC's calculation of a revised GAP surcharge of $0.00158 is a significant reduction to the surcharge that was calculated to avoid further over-funding of the program on a going forward basis.

Based on MERC's experience in Minnesota and in other states, elimination of a surcharge such as the GAP surcharge creates significant customer confusion when the surcharge is added back to customer bills. As the Department's analysis indicates, the proposed revised GAP surcharge would result in an average customer bill impact of $0.35 per month. Such minor impact to customers is significantly outweighed by the potential for customer confusion if the surcharge is eliminated entirely from bills, as well as the cost and burden associated with setting the surcharge at $0.000, only to later have to increase the charge amount to cover ongoing program costs.   MERC would also agree to continue to monitor the funding status of the GAP program and to propose additional revisions to the surcharge in the future if such modifications are warranted.

b. Carrying Charge

The Department also recommends that the Commission approve a carrying charge on the GAP tracker account that is set equal to MERC's Commission approved cost of short-term debt. The Department recommends this change be effective in the month following the Commission's Order in this proceeding.

MERC does not object to this recommendation as this approach would be consistent with recent Commission precedent regarding the appropriate carrying charge for Conservation Improvement Program Tracker balances.

c. Tracker Balance

Finally, the Department requested that MERC provide in an updated estimate of its 2016 year-end tracker balance assuming the Commission approves the Department's recommendations that, effective the first month following the Commission's Order in this matter, the Company use its current short-term cost of debt as the carrying charge on the CIP tracker account and set the GAP surcharge at $0.00 per therm. MERC will submit a revised tracker balance forecast as a supplement to these Reply Comments. In addition to incorporating the changes proposed by the Department, MERC identified an error in the carrying charge calculation it had been using in the GAP tracker.

The Commission originally authorized a carrying charge on MERC's gas affordability program tracker effective January 1, 2012 in its December 29, 2011 Order Accepting Report, Extending Program, and Increasing Gas Affordability Surcharge in Docket No. G-007,011/M-07-1131. That Order also authorized MERC to amortize its projected December 31, 2011 tracker balance over four years. MERC had been calculating carrying charges on the amortized portion of the tracker only, rather than the entire tracker balance. MERC will correct the historical carrying charge calculation and submit a modified projected tracker balance assuming the Department's recommended changes are implemented effective October 1, 2015 as a supplement to these Reply Comments. As discussed above, however, MERC respectfully requests that the Commission not adopt the Department's recommendation to set the GAP surcharge at $0.000 as such action would cause the tracker to again become underfunded and would likely result in significant customer confusion from the removal and addition of a surcharge on customer bills.

Please contact me at (651) 322-8965 if you have any questions.

Sincerely yours,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

cc: Service List

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 10th day of August, 2015, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 10th day of August, 2015.

/s/ Kristin M. Stastny ___________
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