Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068
www.minnesotaenergyresources.com

May 31, 2019

VIA ELECTRONIC FILING

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

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2019 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years
Docket No. G011/M-19-___

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC" or the "Company") is pleased to submit this evaluation of its pilot Gas Affordability Program ("GAP" or "Program") for the period 2015 through 2018. MERC's Program became effective on April 1, 2008, and most recently was extended through December 31, 2019 by the Minnesota Public Utilities Commission's ("Commission's") Order dated September 25, 2015 in Docket No. G011/M-15-539. Order Point 9 of that Order required that MERC submit an evaluation by May 31, 2019. MERC submits this filing in compliance with that requirement.

This evaluation includes background information, a description of the Program, information on Program participation, an evaluation of the Program from both statutory and cost-effectiveness perspectives, and discussion of other relevant factors, including potential societal benefits. MERC is proposing a four-year extension of its GAP pilot through 2023. In accordance with the Commission's November 26, 2014 Order Accepting Gas Affordability Program Annual Reports, MERC submits this evaluation report as a new miscellaneous filing.

Please contact me at (414) 221-2521 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely,

/s/ Michael R. Mueller
Michael R. Mueller
Manager – Low Income & Medical Condition Programs

Enclosures
cc: Service List

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	**Chair**
Dan Lipschultz	**Commissioner**
Valerie Means	**Commissioner**
Matthew Schuerger	**Commissioner**
John A. Tuma	**Commissioner**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2019 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years	Docket No. G-011/M-19-____ **PETITION**

INTRODUCTION

Minnesota Energy Resources Corporation ("MERC" or the "Company") is pleased to submit this evaluation of its pilot Gas Affordability Program ("GAP" or "Program") for the period 2015 through 2018. MERC's Program became effective on April 1, 2008, and most recently was extended through December 31, 2019 by the Minnesota Public Utilities Commission's ("Commission's") Order dated September 25, 2015, in Docket No. G011/M-15-539. Through that Order, the Commission authorized MERC to maintain its six-percent-of-income credit component, to maintain the Company's arrearage-forgiveness component and allow the arrearage to be extinguished over a twenty-four month cycle, and to continue to require customers to pay the entire amount due on the current portion of their monthly gas bill after application of the percentage-of-income credit. The Commission also approved MERC's request to reduce its GAP budget to $750,000 per year. Order Point 9 of that Order required that MERC submit an evaluation by May 31, 2019. MERC submits this filing in compliance with that requirement.

I. Summary of Filing

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing is attached.

II. Service

Pursuant to Minn. R. 7829.1300, subp. 2, MERC has served a copy of this petition on the Minnesota Department of Commerce, Division of Energy Resources and the Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division. The summary of the filing has been served on all parties on the attached general service list.

III. General Filing Information

Pursuant to Minn. R. 7829.1300, subp.3, the following information is provided:

A. Name, Address, and Telephone Number of Filing Party

Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068
(651) 322-8901

B. Name, Address, Electronic Address, and Telephone Number of Attorney for the Utility

Kristin M. Stastny
Briggs and Morgan, P.A.
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
KStastny@briggs.com
(612) 977-8656

C. Date of the Filing and Date Proposed Agreement Will Take Effect

Date of Filing: May 31, 2019

Proposed Effective Date: Upon Commission Approval

MERC is not proposing any modifications to its previously approved GAP through this filing but is proposing to extend its approved GAP for an additional four years through December 31, 2023.

D. Statute Controlling Schedule for Processing the Filing

Under Minn. R. 7829.0100, subp. 11, this petition is a "miscellaneous" filing because no determination of MERC's general revenue requirement is necessary. Comments on a miscellaneous filing are due within 30 days of filing, with replies due 10 days thereafter.[1]

E. Signature, Electronic Address, and Title of Utility Employee Responsible for the Filing

[1] *See* Minn. R. 7829.1400, subps. 1, 4.

Michael R. Mueller
Manager – Low Income & Medical Condition Programs
Michael.mueller@wecenergygroup.com
231 West Michigan Street
Milwaukee, WI 53203
(414) 221-2521

F. Description of the Filing, Impact on Rates and Services, and Reasons for the Filing

During the 2007 legislative session, the Minnesota Legislature amended Minn. Stat. § 216B.16, subd. 15 to require gas utilities to propose a low-income affordability program designed to provide financial assistance to recipients of Low Income Heating Energy Assistance Program ("LIHEAP") grants. The Legislature required natural gas utilities that serve low-income residential customers who use natural gas for heating to file individual affordability programs with the Commission by September 1, 2007.

Minnesota Energy Resources Corporation's ("MERC" or the "Company") filed its Petition for Approval of a Gas Affordability Program ("GAP" or the "Program") in Docket No. G007,011/M-07-1131 on August 28, 2007, and submitted supplements to that petition on October 11, 2007. The Commission approved MERC's Program in an order dated February 27, 2008. The Commission extended GAP for an additional four years on December 29, 2011, in its Order in Docket No. G-007,011/M-07-1131, and extended the Program through December 31, 2019, with modifications, in its Order dated September 25, 2015 in Docket No. G011/M-15-539.

The Commission's September 25, 2015 Order authorized MERC to continue its pilot gas affordability program for an additional four years (until December 31, 2019) with an evaluation to be submitted by May 31, 2019 and annual reports by March 31 of each year. Since the extension of MERC's GAP, MERC has submitted the annual reports required under the Company's GAP tariff to the Commission on March 31, 2015, in Docket No. G011/M-16-273; on March 31, 2016, in Docket No. G011/M-17-247; on March 30, 2017, in Docket No. G011/M-18-243; and on March 29, 2018, in Docket No. G011/M-19-241.

The Company now submits this GAP evaluation report ("Report") in compliance with the Commission's September 25, 2015 Order. The Report includes background information, a description of the Program, information on Program participation, an evaluation of the Program from both statutory and cost-effectiveness perspectives during the period since the last evaluation report was submitted, and discussion of other relevant issues, as well as the following attachments:

Attachment A Summary of GAP Annual Report Statistics

Attachment B Estimated Savings From Avoided Write-Offs

Attachment C Projected GAP Tracker Balance Through December 31, 2019[2]

Attachment D Clean and Redlined Tariff Sheets

If additional information is required, please contact Michael Mueller at (414) 221-2521 or Kristin Stastny at (612) 977-8656.

DATED: May 31, 2019

Respectfully submitted,

BRIGGS AND MORGAN, P.A.

/s/ Kristin M. Stastny
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80 South 8th Street
Minneapolis, MN 55402
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KStastny@Briggs.com

Attorney for Minnesota Energy Resources Corporation

[2] As filed with MERC's January 7, 2019, Compliance Filing to calculate the GAP Surcharge rate of $0.00905 per therm.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	**Chair**
Dan Lipschultz	**Commissioner**
Valerie Means	**Commissioner**
Matthew Schuerger	**Commissioner**
John A. Tuma	**Commissioner**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2019 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years

Docket No. G-011/M-19-____

SUMMARY OF FILING

Please take notice that on May 31, 2019, Minnesota Energy Resources Corporation ("MERC" or the "Company") submitted to the Minnesota Public Utilities Commission ("Commission") an evaluation of its Gas Affordability Program in compliance with the Commission's September 25, 2015 Order in Docket No. G011/M-15-539. MERC is also requesting Commission approval to extend its GAP for an additional four years through 2023.

This filing is available through the eDockets system maintained by the Minnesota Department of Commerce and the Minnesota Public Utilities Commission. You can access this document by going to eDockets through the websites of the Department of Commerce or the Public Utilities Commission or going to the eDockets homepage at https://www.edockets.state.mn.us/EFiling/home.jsp. Once on the eDockets homepage, this document can be accessed through the Search Documents link and by entering the date of the filing.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	**Chair**
Dan Lipschultz	**Commissioner**
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In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2019 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years	Docket No. G-011/M-19-____

I. INTRODUCTION

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this evaluation of its pilot Gas Affordability Program ("GAP" or "Program") for the period 2015 through 2018, in accordance with the Minnesota Public Utilities Commission's ("Commission's") Order dated September 25, 2015 in Docket No. G011/M-15-539, which required that MERC submit an evaluation by May 31, 2019.

A. Description of Gas Affordability Program

MERC's GAP is designed to lower the percentage of income that low-income households devote to energy bills, to increase customer payments, and to reduce the utility's cost associated with the collection of unpaid bills. The Program assists low income customers by: (1) creating a levelized payment plan; (2) tying customer payment amounts to reported income levels ("Affordability component"); (3) applying payments to reduce both current and arrears balances; and (4) providing credits to retire pre-program arrears ("Arrearage Forgiveness component").

In its September 25, 2015, Order in Docket No. G011/M-15-539, the Commission authorized MERC to maintain the Company's six percent-of-income credit component; maintained MERC's arrearage-forgiveness component and allowed the arrearage to be extinguished over a twenty-four month cycle; allowed MERC to continue to require customers to pay the entire amount due on the current portion of their monthly gas bill after application of the percentage-of-income credit; allowed MERC to reduce its annual GAP budget to $750,000; and authorized MERC to continue its pilot GAP for an additional four years, through December 31, 2019.

Qualified customers must agree to be placed on a levelized payment plan and payment schedule, are required to notify MERC of any changes in address, income level, or household size, and must maintain a consistent payment schedule. MERC will maintain service and suspend collection activities to qualified customers, regardless of arrears balances, if the customer stays current with the payment schedule and otherwise maintains eligibility. The Company partners with The Salvation Army on administration of the Program. MERC's GAP was implemented on April 1, 2008, in compliance with Minn. Stat. § 216B.16, subd. 15.

Currently, the program is funded through a per therm charge of $0.00905 which was approved effective April 1, 2019, through the Commission's Order Approving Surcharge and Requiring Further Action dated March 28, 2019 in Docket No. G011/GR-17-563. Prior to implementation of the $0.00905 per therm surcharge implementation, the GAP surcharge had been set to $0.000 for the period October 1, 2015 through March 31, 2019, due to a positive balance (i.e., over-collection) on MERC's GAP tracker.

1. Eligibility

The Program is available to any MERC residential customer who meets the qualifications and receives assistance from LIHEAP during the Program year. Qualified customers must maintain an active account in said customer's name at the customer's permanent primary residence only. If a qualified customer fails to pay two consecutive monthly payments in full under the Program, the customer will be terminated from the Program and will be subject to the Company's regular collection practices, including the possibility of disconnection. Payment each month shall include both payment of the customer's current month's bill after inclusion of the affordability bill credit, and payment of a portion of the customer's pre-program arrears (where applicable).

2. Affordability and Arrearage Forgiveness

The Program has two components, an Affordability component and an Arrearage Forgiveness component. The Affordability component is a bill credit determined as one-twelfth of the difference between MERC's estimate of the qualified customer's natural gas bill and six percent of the qualified customer's household income as provided by the qualified customer. Once enrolled in the Program, any primary heat energy assistance sums are applied to GAP customers' current bills (in accordance with LIHEAP program guidelines) and the balance applied to future bills.

The Arrearage Forgiveness component is a matching credit that is applied to a qualified customer's account each month after receipt of the customer's scheduled arrears payment. The application of this monthly credit and customer payment retires pre-program arrears over a period of up to 24 months, with the Company matching customer contributions to retiring pre-program arrears. The credit is determined by taking the pre-program arrears divided by the number of months to retire the arrears divided by two and then subtracting any energy assistance sums received by the Company on behalf of the customer divided by the number of months remaining to retire the arrears divided by two.

The Affordability and Arrearage Forgiveness credits are both Program costs that are included in the Tracker.

3. Payment

To determine the payment amount for a customer, the Company reviews current bills, consumption information, and household income information. A qualified customer's payment each month includes both payment of the customer's current month's after inclusion of the affordability credit, and payment of a portion of the qualified customer's pre-program arrears, less any energy assistance credit applied to the account each month.

B. <u>Program Participation</u>

The MERC GAP Program became effective on April 1, 2008. The Salvation Army manages the Program enrollment process. Since the Program's extension, Program enrollments for the current evaluation period, by year are reflected in Table 1, below.

Table 1. 2015-2018 Program Participation

	2015	2016	2017	2018	Average 2015-2018 (Combined)
Enrolled at year-end	1,546	1,557	1,580	1,302	1,496
Removed – customer request[3]	103	20	69	26	55
Non-pay default	217	34	40	83	94
Number of participants that received a credit	1,993	1,611	1,607	1,586	1,699
Default rate, delinquency[4]	14%	2%	3%	6%	6%

[3] Reasons for removal at customer request include customer moves and other customer request to be removed from the program.
[4] The Default rate is calculated as the Non-payment Default divided by the total participants at year-end.

GAP credits (affordability and arrearage) were provided to Program participants each year as shown in Table 2 below.

Table 2. 2015-2018 Affordability and Arrearage-Forgiveness Credits

	2015	2016	2017	2018	Average 2015-2018 (Combined)
Affordability Credits	$749,476.50	$696,358.20	$656,564.35	$622,579.57	$681,244.66
Arrearage Forgiveness Credits	$33,649.30	$10,697.46	$10,956.82	$10,242.68	$16,386.57
Total Credits	$783,125.80	$707,055.66	$667,521.17	$632,822.15	$697,631.20
Arrearage Credits/ Total Credits	4.3%	1.5%	1.6%	1.6%	2.3%

C. <u>Program Evaluation</u>

The Company's GAP tariff states, "The Program shall be evaluated before the end of the four year term and may be modified based on annual reports and on a financial evaluation."[5] The Company has undertaken this evaluation for the purpose of assessing the operation and impact of the Program in order to provide information to support a decision to continue, modify, or discontinue the Program.

In order to present a comprehensive evaluation of the Program, the Company's evaluation criteria include the requirements of the enabling statute and the Commission-approved tariff, and other operational factors. The Company also provides information regarding societal benefits. These criteria are discussed below.

Minn. Stat. §216B.16, subd. 15 provides:

> (b) Any affordability program the commission orders a utility to implement must:
> (1) lower the percentage of income that participating low-income 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 the utility costs associated with customer account collection activities; and

[5] MERC Tariff, Sheet No. 7.11, paragraph 5.1.

> (5) coordinate the program with other available low-income bill payment assistance and conservation resources.[6]

While the statute does not explicitly state that these requirements shall be used as evaluation criteria, the Company believes it is reasonable to review the Program's performance with respect to the statutory requirements to determine whether the Program satisfied the legislative intent.

The statute also states:

> (c) In ordering affordability programs, the commission may require public utilities to file program evaluations that measure the effect of the affordability program on:
> (1) the percentage of income that participating households devote to energy bills;
> (2) service disconnections; and
> (3) frequency of customer payments, utility collection costs, arrearages, and bad debt.[7]

MERC has reported on certain of these criteria as part of its annual compliance reports and will discuss them as part of the overall evaluation as well.

The Company's tariff states, in part:

> The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program.[8]

As stated above, annual compliance filings have been submitted each spring that provided information on participation, payment amounts, arrearages, and other GAP-related information. A summary of the information reported annually is provided in Attachment A.

[6] Minn. Stat. § 216B.16, subd. 15(b).

[7] Minn. Stat. § 216B.16, subd. 15(c).

[8] MERC Tariff, Sheet No. 7.11, paragraph 5.3.

1. Evaluation Based on Statutory Criteria

As previously stated, Minnesota Statute § 216B.16, subd. 15(b) lists five requirements that low-income affordability programs must meet. Each of these five requirements is discussed below.

a. Lower the percentage of income that participating low-income households devote to energy bills

By design, the Program reduces the natural gas bill to participants from what the bill would have been without the Program.[9] The amount of this reduction is equal to the total monthly affordability and arrearage forgiveness credits provided to participants. For this reason, the Program reduced the amounts billed for natural gas service to participating customers.

b. Increase participating customer payments over time

The Company considered any energy assistance credits that credited the monthly amount due as a customer payment, as energy assistance credits are always first applied to any current amount due and any future billings. As shown in the following Tables 3-5, MERC compared customer payment frequency of GAP participants between 2015 and 2018. MERC also separated out the payment frequency between 2015 and 2017 (this was not tracked in 2018) for the new enrollees in the Program each year.

Table 3. 2015-2018 GAP Customer Payment Frequency

GAP Customer Payment Frequency – All Customers Participating	
	MERC Total
Payments made by GAP customers in 2015	11,405 payments 6 per GAP customer
Payments made by GAP customers in 2016	4,058 3 payments per GAP customer
Payments made by GAP customers in 2017	2,470 2 payments per GAP customer
Payments made by GAP customers in 2018	3,695 3 payments per GAP customer

Table 4. 2015-2018 GAP Customer Payment Frequency-New Enrollees

GAP Customer Payment Frequency – New Customers in Program Year

[9] Changes in usage due to conservation or weather-related demand and changes in the price of natural gas also contribute to changes in the total amount of natural gas bills to participants.

	MERC Total
Payments Made in 2015	1,710 7 payments per GAP customer
Payments Made in 2016	295 5 payments per GAP customer
Payments Made in 2017	252 4 payments per GAP customer
Payments Made in 2018	Did not track separately in 2018

Table 5. 2015-2018 LIHEAP Customer Payment Frequency

Customer Payment Frequency – LIHEAP Recipients	
	MERC Total
Payments Made in 2015	112,837 9 payments per LIHEAP recipient
Payments Made in 2016	94,358 7 payments per LIHEAP recipient
Payments Made in 2017	104,867 7 payments per LIHEAP recipient
Payments Made in 2018	Did not track separately in 2018

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. 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.

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. While participating in the Program, MERC would expect customers to make the required consistent monthly payments. MERC has noticed a decrease in the number of payments required by the Program due to the number of customers who carry a credit balance each month and therefore no payment is required. These credit balances are typically due to GAP credits and Energy Assistance payments.

c. Decrease or eliminate participating customer arrears

Table 6 below shows the change in arrearage level for the average GAP customer compared to LIHEAP customers (who were not enrolled in GAP) at the end of each of the program years (December 31, 2015; December, 31, 2016; December 31, 2017; and December 31, 2018). It further compares the average level of arrearage for all of the utility's Residential customers as of December 31, 2015; December, 36, 2016; December 31, 2017; and December 31, 2018.

Table 6. 2015-2018 Customer Arrears

	Average Arrears as of December 31, 2015	Average Arrears as of December 31, 2016	Average Arrears as of December 31, 2017	Average Arrears as of December 31, 2018
MERC GAP Customers	-$683	-$702	-$683	-$802
LIHEAP Customers	$189	$243	$267	Not tracked separately in 2018
MERC Residential Customers	$136	$174	$243	Not tracked separately in 2018

The average credit balance for all GAP customers at the end of 2018 (as reflected above) was quite substantial because the majority of the enrolled customers no longer had any arrears. These customers continue to be eligible and participate in the Program. Because these customers have large credit balances, they decrease GAP participants' average account balance.

Overall, the Program has been successful reducing and eliminating the arrears of Program participants who entered the program with arrears. Many of the participants currently have sizeable account credits. Although these credits help ease their energy burden, these customers aren't required to make regular monthly payments due to the credit balances.

d. Lower the utility costs associated with customer account collection activities

The overall costs associated with collection activities include several time consuming and costly activities, with the greatest of these being the actual gas service disconnection process. One of the most important outcomes of MERC's GAP has been helping low-income customers avoid disconnection of gas service.

The following table shows the number of disconnections of all firm customers and LIHEAP recipients, compared to GAP participants during the last four years of the Program. The numbers/percentages of GAP customers represent GAP customers who defaulted from the GAP program and had gas service disconnected within 90 days.

Table 7. 2015-2018 Disconnection Rates

Customer Category	Number of Disconnections	Percentage of Firm Customers	Percentage of Firm Disconnects
2018 Firm Customers (Approx. 232,000)	3,860	1.6%	100%
2017 Firm Customers (Approx. 232,000)	1,680	Less than 1%	100%
2016 Firm Customers (231,809)	792	Less than 1%	100%
2015 Firm Customers (230,160)	5,285	2%	100%
Customer Category	**Number of Disconnections**	**Percentage of Firm Customers**	**Percentage of Firm Disconnects**
2018 LIHEAP Recipients (Non-GAP Participants)	915	8%	24%
2017 LIHEAP Recipients (Non-GAP Participants)	384	3%	23%
2016 LIHEAP Recipients (Non-GAP Participants)	65	Less than 1%	8%
2015 LIHEAP Recipients (Non-GAP Participants)	1,176	8.5%	22%
Customer Category	**Number of Disconnections**	**Percentage of Firm Customers**	**Percentage of Firm Disconnects**
2018 GAP Participants	3	Less than 1%	Less than 1%
2017 GAP Participants	32	2%	Less than 1%
2016 GAP Participants	13	Less than 1%	Less than 1%
2015 GAP Participants	70	3.5%	Less than 1%

Each disconnection the Company avoids also generates additional savings associated with disconnection notices, reconnection fees, and multiple contacts and actions with community agencies. 340 total gas-service disconnections were prevented through enrollment in the Program between 2015 and 2018. MERC estimates savings related to stopping the disconnect process on accounts that have enrolled in GAP, after the disconnect notice is sent and before the physical disconnection at the meter, as shown in in Table 8 below.

Table 8. 2015-2018 Disconnections Avoided and Cost Savings

Program Year	# of Disconnects Prevented	Savings[10]
2018	71	$34,046.60
2017	43	$22,631.20
2016	28	$30,195.80
2015	198	$20,628.00
Total	**340**	**$132,611.60**

The Program has also created savings through fewer write-offs for MERC's GAP customers. As reflected in Attachment B, MERC estimates over $836,000 in savings from avoided write-offs due to the Program from 2016 to December 31, 2018.[11] Because of a change in the MERC billing system, detailed data for 2015 is not available for reporting.

In summary, based on the collection/disconnection information provided above, overall collection costs have been reduced for GAP participants in each of the past four years of the Program.

e. Coordinate the program with other available low-income bill payment assistance and conservation resources

MERC has continued to build its strong partnership with the Salvation Army, which administers the Company's GAP and provides some basic but important additional services to MERC customers in need. MERC Call Center representatives continue to refer customers who have received Minnesota Energy Assistance benefits to the Salvation Army as appropriate for potential program enrollment. The Salvation Army has access to a variety of internal and external programs to which it refers individuals. The external agencies include: Second Harvest, Energy Assistance, County Emergency Assistance, medical clinics, the Social Security Administration, the Veterans Administration, legal services, Emergency Disaster Services, the Department of Housing and Urban Development, the Federal Emergency Management Agency, St. Vincent de Paul, the Minnesota Housing Authority, and the Minnesota Weatherization Assistance Program. The Salvation Army also refers individuals to MERC's Conservation Improvement Program weatherization and 4U2 (limited income) programs.

[10] As discussed in more detail in Section E below, MERC estimates savings of $75 for each disconnection avoided, $75 for each reconnection avoided, and $5 for the mailing and required collection calls for each disconnection. The number of avoided disconnections was determined based on customer accounts with arrears at the time of enrollment who could have been eligible for disconnection absent enrollment in GAP.

[11] Since MERC does not track write-offs specifically for GAP participants and collection activities are suspended during enrollment in GAP, MERC has assumed in this analysis that GAP participants' accounts are written off at the same percentage as write-offs for MERC's LIHEAP customers.

Another program that is available through the Salvation Army is HeatShare, which is a state-wide fuel fund for customers who are ineligible for GAP. HeatShare offers direct assistance, budget counseling, and energy conservation education. In an effort to help low-income households with the costs of heating, HeatShare works in conjunction with the Energy Assistance program on a statewide and local basis. The Salvation Army is connected with the State of Minnesota programs and is a part of the Minnesota Department of Commerce's LIHEAP Policy Advisory Committee. Additionally, the Salvation Army offers food assistance, rent assistance, medical clinics, seasonal and disaster assistance, and many other services for those in need.

MERC has continued to work very closely with the Salvation Army to assure that customers in need receive assistance. MERC Call Center representatives continue to make referrals to GAP and the Salvation Army's other energy-assistance programs. Through ongoing training, support, and coaching, MERC's Call Center representatives continue to be proactive in encouraging customers to act quickly on their need for assistance instead of waiting until their bill is too big for agencies to help and they are already in the collection process. The Salvation Army continues to assist customer with funds from the HeatShare program and refers customers to other programs, such as food assistance, rental assistance, budget counseling and other services. MERC continues to support the HeatShare program by donating 50 cents for each dollar customers donate. MERC also has a specially trained group of customer service staff known as the "Customer Assistance Center" that works with the agencies on a daily basis to assist customers and agency staff and expedite the assistance processes. The team works very closely with the Salvation Army staff to assist in enrolling MERC customers in GAP.

MERC has regular contact with all of the energy assistance agencies and many community agencies in its service territory. MERC's Customer Assistance Center and Customer Assistance Leader attempt to communicate with the energy assistance agencies regularly, having contact with many of them throughout the year. MERC staff also meet with Department and Commission staff to discuss process improvements, issue resolution, assistance coordination, and opportunities to strengthen the partnerships with all stakeholders. MERC also continues to work closely with other utilities to share best practices, discuss partnership opportunities, and to align program practices where appropriate.

Over the last four years, MERC has promoted Program enrollment in a variety of ways. MERC has sent promotional bill inserts and promoted GAP through the Care Centers at the end of each Cole Weather Rule period. Customer Care Center representatives receive on-going training and updates regarding GAP to be able to proactively refer customers to the Program before the customers enter collection action.

In summary, the Company believes its GAP continues satisfy each of the five statutory requirements.

2. Evaluation of Other Issues and Challenges

In addition to the evaluation based on the statutory criteria provided above, MERC provides the following evaluation of other issues and criteria related to the Program.

a. <u>GAP impact on LIHEAP (Energy Assistance) Grants</u>

The following table lists the total federal dollars allocated to the State of Minnesota's Energy Assistance Program during the last four Energy Assistance Program years:

Table 9. State of Minnesota - LIHEAP Allocations

Program Year	Minnesota LIHEAP Funding
2015-2016	$113,774,946
2016-2017	$114,628,056
2017-2018	$116,989,843
2018-2019	$116,287,653

The regular energy assistance grants of MERC's GAP participants were not impacted by the Program benefits, as GAP does not take other assistance programs into account. Regular energy assistance grants are based on number of household members, gross household income, and 12 months of energy consumption, including the previous heating season. Energy assistance is not tied to average bills, amount of arrears or other possible assistance. The regular grant is the primary benefit that all eligible customers receive each LIHEAP program year.

Emergency (Crisis) energy assistance benefits provide additional assistance to customers who have higher arrears, are making regular payments, but cannot pay their entire monthly bill so may be falling further behind and are potentially facing service disconnection. 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, so households avoid crisis scenarios. MERC does not feel, however, that it can make a fair and accurate analysis of the overall reduction of emergency benefits to GAP customers. There are too many variables that impact a customer's ability to qualify for emergency benefits and 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. Participation varies year-to-year, so the average benefit paid per household is estimated from previous participation. A colder than normal winter and higher application trends impact the number of customers the Program serves.

As the chart below indicates, the number of customers receiving an energy assistance benefit has dropped each of the Federal Fiscal years being evaluated in this report. As the data below indicates, applications have been down, to date, for the 2018-2019 Program year as well.

Table 10. MERC Recipients of LIHEAP Grants

Program Year	# of Recipients	Grant Totals
2015-2016	12,029	$4,195,699.84
2016-2017	11,607	$4,403,534.67
2017-2018	11,504	$4,861,179.87
2018-2019	*10,644	*$4,254,661.97

*Received through 04/25/19

b. Program Budget/Spending Updates

The Commission recently authorized reinstatement of a positive GAP surcharge factor of $0.00905 effective April 1, 2019, in its March 28, 2019 Order Approving Surcharge and Requiring Further Action in Docket No. G011/GR-17-563. Until the recent reinstatement, MERC's GAP has been funded by a positive tracker balance in the GAP account, with the GAP surcharge rate set to $0.000. The per-therm surcharge was reduced to $0.00 pursuant to the September 25, 2015 Order in Docket No. G011/M-15-539, and MERC stopped collecting the GAP surcharge on October 1, 2015.

The Commission's September 25, 2015 Order in Docket No. G011/M-15-538 also approved MERC's request to reduce its annual GAP budget to $750,000. Table 11 below summarizes MERC's authorized budget and actual annual spending for the period 2015-2018.

Table 11. 2015-2018 Budget and Spending

Year	Approved Budget	Actual Spend
2015	$1,000,000	$927,210
2016	$750,000	$707,354
2017	$750,000	$707,095
2018	$750,000	$652,346

While MERC's Program spend in recent years has fall somewhat below the approved annual budget of $750,000, MERC does not believe any further reductions to the annual budget are warranted at this time. The availability of the approved $750,000 will continue to ensure all eligible customers wishing to enroll in MERC's GAP are able to do so and are not turned away from a lack of funding. With the recent reinstatement of the GAP surcharge factor effective April 1, 2019, MERC will continue to monitor and report on the tracker balance in its annual GAP reports so that any adjustment to the surcharge rate (including discontinuance of collection) can be made if necessary. Attachment C to this filing is the forecasted GAP tracker balance through December 2019 as filed with MERC's January 7, 2019 Compliance Filing in Docket No. G011/GR-17-563.

D. **Cost Effectiveness Analysis**

As previously mentioned, the Company's tariff states, in part:

> The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program.

Pursuant to this provision, the Company performed a cost-effectiveness analysis from a ratepayer perspective for the period from 2015 through 2018 and found that there was a net cost to ratepayers of approximately $1.2 million. On an annual basis, this is about $410,730. The calculation of savings from avoided write-offs, service disconnections and reconnections, and collections activities are summarized below.

Table 12. GAP Cost-Effectiveness

	2015	2016	2017	2018	Total 2015-2018	2015-2018 Average
Program Costs[12]	$927,210	$707,354	$707,095	$652,346	$2,994,005	$748,501
Savings From Avoided Write-Offs	N/A	($366,267)	($239,325)	($230,560)	($836.152)	($278,717)
Savings From Avoided Disconnect, Reconnects, and Collections	N/A	($30,196)	($22,631)	($34,047)	($86,874)	($28,958)

[12] "Program Costs" exclude carrying charges and the annual amortization of GAP tracker balance amount.

Cost/ (Benefit)	N/A	$399,312	$445,139	$387,739	$1,232,190	$410,730

The Company considered Program costs, including affordability and arrearage credits, and administration and start-up costs included in the GAP tracker. The total cost of affordability and arrearage credits provided to GAP participants was about $1.9 million over the entire period or about $651,608 per year.

Savings were considered including savings from avoided write-offs, service disconnections and reconnections, and collections activities. Write-offs, service disconnections and reconnections, and collection activities were reduced by lowering the number of accounts that proceeded down the disconnection path. The calculation of the savings from avoided write-offs is included as Attachment B; savings from avoided service disconnections and reconnections and collections are calculated above. The savings over the entire period was approximately $ 1.3 million or about $315,518 per year.

The service disconnections, reconnections and other related "back-office" collection costs were estimated as follows:

- MERC assumed that all service disconnections that were prevented through enrollment in the Program would have also involved a service reconnection,
- MERC estimated the cost of each disconnection/reconnection to be $150.
- MERC estimated the cost of preparing and mailing disconnect notices and the required collection calls to be $5 per customer.

As shown in the table above, the total net cost to ratepayers over the previous four years was approximately $836,000 or about $278,717 per year.

E. <u>Societal Benefits</u>

In addition to tangible costs and benefits considered in the cost effectiveness analysis, there are additional benefits and challenges that could be considered in an analysis of the Program. The Company is providing this additional information on potential benefits to provide an additional perspective in this Program evaluation, but MERC cannot quantify or verify the potential additional benefits presented. Potential societal benefits include:

- *Household Budget Management* – GAP has had a consistently high retention rate, indicating that customers succeeded when a set-monthly credit (based on household income and annual gas consumption) is applied to their monthly gas bill. Adding to this success is the other program component that spreads customers' arrears at enrollment over 24 months. Moreover, half of the arrears are forgiven, with the customers' monthly payment set at the amount necessary to pay half of the arrears balance during the course of their 24-month participation in the Program. The model that MERC used to "right-size" customers' monthly bill encourages customers' efforts to improve household budget management. As customers make these monthly payments, they are rewarded each month with an account credit and another portion of their arrears are forgiven. This incentive alone helps customers learn how to manage their limited household income. MERC also believes that holding the customer accountable for the balance of their monthly gas consumption provides motivation for them to take conservation measures and seek further assistance.

- *Stabilizing Household Mobility* – Low- and limited-income households tend to be more transient. Historically, a greater percentage of these households are renters and may be forced to move for employment, transportation, and other reasons. MERC continues to believe that GAP-assisted customers benefit from staying in their current housing, rather than moving in an effort to lower utility costs. A lower probability of moving equates to less money spent on moving, rental and utility security deposits, lost work time, and other moving-related expenses.

In summary, there is a demand for much greater assistance beyond what the LIHEAP program can provide and GAP has provided a successful supplemental boost to the LIHEAP benefits. This is the type of program that can help bridge the "gap" that is growing between what average low-income household consumption is and what these consumers can afford, and it provides much brighter potential to move more families and individuals toward self-sufficiency.

F. <u>2019 Program</u>

As noted above, the current GAP will end on December 31, 2019 if the Commission does not take action to extend the Program before the end of 2019. MERC proposes that the Program be extended for four years. A four-year extension would allow the Commission to again review MERC's Program.

G. <u>Proposed Program Modifications</u>

After review of MERC's 2018 GAP Annual Report and MERC's GAP Program Evaluation, if the Commission decides that GAP was successful in satisfying each of the five statutory requirements, that continuing the Program benefits ratepayers, and that it plans to extend the Company's GAP Program, MERC recommends maintaining all of the current Program parameters without modification. In particular, MERC proposes to:

- Maintain MERC's "Percent of Income" credit program component, calculated as: One-twelfth of the difference between MERC's estimate of the qualified customer's annual natural gas bill and six percent of the qualified customer's monthly household income, as provided by the customer.
    - MERC is recommending the continuation of this percentage for the affordability credit because this percentage credit has resulted in success (especially for the high consumers, with the lowest income) for MERC participants during the Program pilot.

- Maintain MERC's "Arrears Forgiveness" program component, calculated as: A matching credit of 1/12 of the pre-enrollment arrears, which is applied to a qualified customer's account each month after receipt of the customer's (1/12) monthly arrears payment. Pre-enrollment arrears are paid over 24 months.
    - MERC is recommending the continuation of a 24-month arrears forgiveness cycle because the more realistic (lower percentage of arrears) customer payment has been successful during the past four years.
- Continue to allow customers without arrears at the time of enrollment to participate in the Program for 12 months and allow customers with arrears at the time of enrollment to participate in the Program for 24 months. Customers would then be eligible to reenroll in the Program, if they continue to qualify for enrollment through receipt of LIHEAP during enrollment or prior to future enrollment.
- MERC's $750,000 budget for the next 4 year cycle of the program. MERC believes this budget amount accurately reflects historical and anticipated Program spending.

MERC is submitting clean and redline tariffs reflecting the proposed program extension as Attachment D to this Report.

H. Summary and Conclusion

This evaluation of MERC's GAP demonstrates that the Program satisfied the statutory requirements by lowering the percentage of income participants devote to energy bills, increasing the payment frequency of participants, decreasing the arrears of participants, and lowering utility collection costs. The Program was also delivered in a manner coordinated with other available low-income bill payment assistance and conservation resources. Furthermore, the Program helped leverage additional assistance dollars for this group of customers and MERC's other LIHEAP eligible customers.

MERC program has continued to be successful over the four years evaluated under this Report. The Program enrolled a large group of very low-income customers who had very high consumption and considerable arrears with MERC, and this Program has made a great difference for many low-income households. Many of MERC's customers have successfully eliminated their pre-Program arrears through participation in the Program, and it is MERC's hope that these customers will continue to make regular payments with the assistance of the Affordability credit.

While the Program did create some savings related to avoided write-offs, disconnections, reconnections, and collections activities, MERC estimates that the Program resulted in an overall net cost to MERC's ratepayers of approximately $836,152 (this does not include data from 2015 due to unavailability) from 2016 through December 31, 2018. The Program also appears to have created societal benefits.

MERC requests that the Commission extend MERC's Program for four years. At the end of that period, the Commission may again review MERC's Program in the context of any additional information that becomes available with the continuation of other utilities' programs.

DATED: May 31, 2019

Respectfully submitted,

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Attachment A

Summary of GAP Annual Report Statistics

2015 - 2018 4 Year GAP Evaluation Attachment A - Summary

#	Item	2015	2016	2017	2018	Total	Average
1	Affordability Credit	$749,476.50	$696,358.20	$656,564.35	$622,579.57	$2,724,978.62	$681,244.66
2	Arrearage Forgiveness Credit	$33,649.30	$10,697.46	$10,956.82	$10,242.68	$65,546.26	$16,386.57
3	Program Administrative Costs	$50,000.00	$37,500.00	$38,670.00	$18,750.00	$144,920.00	$36,230.00
4	Start-Up Costs	$0.00	$0.00	$0.00	$0.00	$0.00	
5	Enrollment at Year End	1,546	1,557	1,580	1,302		1,496
6	New Enrollees	243	66	63	179	551	137.75
7	GAP Customer Disconnections	70	13	32	3	118	29.5
8	GAP Disconnection Percentage	3.50%	<1%	2%	<1%		
9	LIHEAP Disconnection % (Non-GAP)	8.50%	<1%	3%	8%		
10	Firm Customer Disconnect %	2%	<1%	<1%	1.60%		
11	Avoided Disconnections	198	28	43	71	340	85
12	Total GAP Customer Payments	$882,699	$149,668	$158,470	N/A		
13	Number of GAP Customer Pmts	11,405	4,058	2,470	3,695	21,628	5,407
14	Average Annual Bill Credit	$468.00	$480.00	$672.00	$692.00		$578.00
15	Average monthly Bill Credit	$39.00	$40.00	$56.00	$58.00		$48.25
16	Average Annual Bill GAP Participant	$504.00	$732.00	$696.00	$881.00		$703.25
17	Average Monthly Bill GAP Participant	$42.00	$61.00	$58.00	$73.00		$58.50
18	Average Year-End Arrearage GAP Participant	($683.00)	($702.00)	($523.00)	N/A		
19	Average Year-End Arrearage Residential	$136.00	$174.00	$243.00	N/A		
20	Average Year -End Arrearage LIHEAP	$189.00	$243.00	$267.00	N/A		
21	Average Arrears at Enrollment	$104.00	$1,078.42	$520.03	$479.53		
22	Retention Rate	90%	98%	97.5%	92%		
23	Default Due to Nonpayment	217	34	40	83		93.5
24	GAP Customers in Arrears at Year-End	233	144	110	N/A		
25	Total GAP Customer Arrears at Year-End	$38,912.00	$42,166.00	$38,633.00	N/A		

Attachment B

Estimated Savings From Avoided Write-Offs

MERC Write - Offs (Gross)

Dollars	**2015**	**2016**	**2017**	**2018**
All Bad Debt $		$1,808,166	$1,747,223	$2,578,603
LIHEAP Bad Debt $		$576,171	$410,182	$605,564
% of LIHEAP vs All		31.86%	23.48%	23.48%
GAP Bad Debt $		$34,458	$9,134	$3,228
% of GAP vs LIHEAP		5.98%	2.23%	0.53%
Accounts				
All Bad Debt Accounts		5,604	7,775	9,518
LIHEAP Bad Debt Accounts		813	958	1,327
% LIHEAP vs All		14.51%	12.32%	13.94%
GAP Bad Debt All		1,557	1,580	1,302
GAP Bad Debt Accounts		23	14	14
% GAP vs LIHEAP		2.83%	1.46%	1.06%
Average All Accounts Write-Off		$322.66	$224.72	$270.92
Average LIHEAP Write-Off		$708.70	$428.16	$456.34

Estimated Write-Off Not Done Due to GAP	$ 157,717.04	$ 82,616.72	$ 81,946.46
Est Afford Credts Write-Off Not Done Due to GAP	205,141.32	154,136.52	146,207.76
Est Arrs Forgive Crdts Write-Off Not Done Due to GAP	3,408.74	2,572.25	2,405.41
Total Write Offs Not Done due to GAP	$ 366,267.10	$ 239,325.49	$ 230,559.64

Total Program Write Offs Not Done 2016-2018 **$ 836,152.23**

Attachment C
Projected GAP Tracker Balance Through December 31, 2019

Minnesota Energy Resources - Total Company
Gas Affordability Program Tracker

		Beginning Balance Subject to Carry Cost-Over (Under)	Funding (from bills/refunds)	Credits Due to Final Accounts	Dollars Paid for Arrearage Forgiveness	MPUC\DOC Charges	Admin Fee to Salvation Army	Dollars Paid for Affordability	Balance Subject to Carry Cost	Cumulative Carry Costs Beginning Balance	Carry Cost	Cumulative Carry Costs	Balance
				JE from Nancy	*Info from Chris*	*Thru A/P*	*Thru A/P*	*CIS*					
Actual	**Jan-18**	($177,585.34)			$ 893.30		$ (18,750.00)	$ 56,795.12	$ (216,523.76)	$ 138,609.41	$ (649.57)	$ 137,959.84	$ (78,563.92)
Actual	**Feb-18**	(216,523.76)			924.25			48,920.60	$ (266,368.61)	137,959.84	$ (799.11)	$ 137,160.73	$ (129,207.88)
Actual	**Mar-18**	(266,368.61)		10,800.14	41.56		18,750.00	53,789.29	$ (328,149.32)	137,160.73	$ (984.45)	$ 136,176.28	$ (191,973.04)
Actual	**Apr-18**	(328,149.32)			111.48			53,463.22	$ (381,724.02)	136,176.28	$ (1,145.17)	$ 135,031.11	$ (246,692.91)
Actual	**May-18**	(381,724.02)			174.58			55,830.09	$ (437,728.69)	135,031.11	$ (1,313.19)	$ 133,717.93	$ (304,010.76)
Actual	**Jun-18**	(437,728.69)		19,258.83		1,092.38		50,362.74	$ (469,924.98)	133,717.93	$ (1,409.77)	$ 132,308.15	$ (337,616.83)
Actual	**Jul-18**	(469,924.98)						53,238.36	$ (523,163.34)	132,308.15	$ (1,569.49)	$ 130,738.66	$ (392,424.68)
Actual	**Aug-18**	(523,163.34)						56,516.37	$ (579,679.71)	130,738.66	$ (1,739.04)	$ 128,999.62	$ (450,680.09)
Actual	**Sep-18**	(579,679.71)						49,991.54	$ (629,671.25)	128,999.62	$ (1,889.01)	$ 127,110.61	$ (502,560.64)
Actual	**Oct-18**	(629,671.25)						56,229.13	$ (685,900.38)	127,110.61	$ (2,057.70)	$ 125,052.91	$ (560,847.47)
Actual	**Nov-18**	(685,900.38)		57,963.62				48,401.07	$ (676,337.83)	125,052.91	$ (2,029.01)	$ 123,023.89	$ (553,313.94)
Actual	**Dec-18**	(676,337.83)		5,549.98				47,829.74	$ (718,617.59)	123,023.89	$ (2,155.85)	$ 120,868.04	$ (597,749.55)
Forecast	**Jan-19**	(718,617.59)						62,500.00	$ (781,117.59)	120,868.04	$ (2,343.35)	$ 118,524.69	$ (662,592.90)
Forecast	**Feb-19**	(781,117.59)						62,500.00	$ (843,617.59)	118,524.69	$ (2,530.85)	$ 115,993.84	$ (727,623.75)
Forecast	**Mar-19**	(843,617.59)						62,500.00	$ (906,117.59)	115,993.84	$ (2,718.35)	$ 113,275.48	$ (792,842.11)
Forecast	**Apr-19**	(906,117.59)	195,682.15					62,500.00	$ (772,935.44)	113,275.48	$ (2,318.81)	$ 110,956.68	$ (661,978.76)
Forecast	**May-19**	(772,935.44)	106,151.88					62,500.00	$ (729,283.56)	110,956.68	$ (2,187.85)	$ 108,768.83	$ (620,514.73)
Forecast	**Jun-19**	(729,283.56)	44,524.23					62,500.00	$ (747,259.33)	108,768.83	$ (2,241.78)	$ 106,527.05	$ (640,732.28)
Forecast	**Jul-19**	(747,259.33)	30,528.50					62,500.00	$ (779,230.83)	106,527.05	$ (2,337.69)	$ 104,189.36	$ (675,041.47)
Forecast	**Aug-19**	(779,230.83)	33,635.44					62,500.00	$ (808,095.39)	104,189.36	$ (2,424.29)	$ 101,765.07	$ (706,330.32)
Forecast	**Sep-19**	(808,095.39)	72,489.56					62,500.00	$ (798,105.82)	101,765.07	$ (2,394.32)	$ 99,370.75	$ (698,735.07)
Forecast	**Oct-19**	(798,105.82)	177,020.22					62,500.00	$ (683,585.60)	99,370.75	$ (2,050.76)	$ 97,320.00	$ (586,265.61)
Forecast	**Nov-19**	(683,585.60)	286,862.65					62,500.00	$ (459,222.95)	97,320.00	$ (1,377.67)	$ 95,942.33	$ (363,280.63)
Forecast	**Dec-19**	(459,222.95)	426,067.86					62,500.00	$ (95,655.09)	95,942.33	$ (286.97)	$ 95,655.36	$ 0.27
			$ 1,372,962.50	$ 93,572.57	$ 2,145.17	$ 1,092.38	$ -	$ 1,381,367.27			$ (42,954.05)		

Attachment D
Clean and Redlined Tariff Sheets

GAS AFFORDABILITY PROGRAM (GAP) 4th Revised Sheet No. 7.09

1. Availability:

GAP is available to residential customers in the MERC Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program ("LIHEAP") during the federal fiscal year ("Program Year").

2. Program Description and Rate Impact for Qualifying Customers:

This Program shall meet the conditions of Minnesota Statutes, Chapter 216B.16, Subd. 15 on low income programs. The Program has two components: 1) Affordability, and 2) Arrearage Forgiveness. MERC or an agent of MERC, will review current billing and consumption information, approved LIHEAP benefits and household income information as submitted to MERC to determine a Qualified Customer's affordability bill credit and arrearage forgiveness. A Qualified Customer's payment each month shall include both payment of the customer's current month's bill after inclusion of the affordability bill credit, and payment of a portion of the Qualified Customer's pre-program arrears.

2.1. *Affordability Component:*

The Affordability component consists of a bill credit determined as one-twelfth of the difference between MERC's estimate of the Qualified Customer's annual gas bill and 6% of the Qualified Customer's household income as provided by the Qualified Customer to MERC. This bill credit is a Program cost that will be included in the Tracker. Any energy assistance sums not applied to arrears will be applied to a Qualified Customer's current bill.

2.2. *Arrearage Forgiveness Component:*

The Arrearage Forgiveness component consists of a monthly credit that will be applied each month after receipt of the Qualified Customer's payment. The credit will be designed to retire pre-program arrears over a period of up to 24 months, with the Company matching the Qualifying Customer's contribution to retiring pre-program arrears. The credit is determined by taking the pre-program arrears divided by the number of months to retire the arrears divided by two and then subtracting any energy assistance sums received by the Company on behalf of the customer divided by the number of months remaining to retire the arrears divided by two. This arrearage forgiveness credit is a Program cost that will be included in the Tracker.

3. Conditions of Service:

3.1. Enrollment participation is limited to a first come first served basis until the estimated Program dollar cap is reached.

3.2. Before the start of an enrollment period, MERC will mail information on the Program and an application to participate in the Program to targeted current LIHEAP customers in arrears. The application for participation must be completed in full and returned to MERC before the close of the enrollment period.

3.3. Regardless of arrears balances, MERC agrees to maintain service and suspend collection activities to Qualified Customers if they maintain their payment schedule.

3.4. Qualified Customers must maintain an active MERC account in said customer's name at their permanent primary residence only to be eligible for this Program.

3.5. Qualified Customers agree to notify MERC of any changes in address, income level, or household size. Such changes may result in removal from the Program. Additionally, Qualified Customers who do not continue to qualify under the provisions of Section 1 above can be removed from the Program.

3.6 If a Qualified Customer fails to pay two consecutive monthly payments in full under the Program, they will be terminated from the Program and will be subject to MERC's regular collection practices including the possibility of disconnection.

4. Funding:

4.1. Total Program costs, which include start-up costs, Affordability component, Arrearage Forgiveness component and incremental administration costs incurred collectively by MERC shall not exceed $750,000 per year plus the estimated tracker balance as of December 31, 2011. MERC shall limit administrative costs included in the Tracker (except start-up related costs) to 5% of total Program costs. Administrative costs will include, but are not limited to, the costs to inform customers of the Program and costs to process and implement enrollments.

4.2. MERC shall recover Program costs in the Delivery Charge applicable to all firm service customers receiving service under Rate Schedules GS-NNG General Service and GS-Consolidated General Service.

4.3. A tracking mechanism ("Tracker") will be established to provide for recovery of actual Program costs as compared to the recovery of Program costs through rates. MERC will track and defer Program costs with regulatory approval. The prudency of the Program costs are subject to regulatory review.

4.4. Program costs shall be recovered in the GAP Surcharge for all firm service customers receiving service under Rate Schedules GS-NNG General Service and GS-Consolidated General Service. Effective April 1, 2019, the surcharge shall be $0.00905 per therm. MERC may petition the Commission to adjust this rate in order to true-up the Program balance in the Tracker either in a general rate case, in an annual GAP report filing, or in a future GAP evaluation filing. .

5. Evaluation:

5.1. The Program shall be evaluated before the end of the four year term and may be modified based on annual reports and on a financial evaluation.

5.2. The annual reports will include the effect of the Program on customer payment frequency, payment amount, arrearage level and number of customers in arrears, service disconnections, retention rates, customer complaints and utility customer collection activity. The annual reports may also include information about customer satisfaction with the Program.

5.3. The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program.

6. Program Revocation:

The Program, upon approval by the Commission, is effective unless the Commission, after notice and hearing, rescinds or amends its order approving the Program.

7. Term:

The Program is approved through December 31, 2023~~19~~, with annual reports to be filed by March 31 each year and a program evaluation to be filed by May 31, 2023~~19~~.

8. Applicability:

Unless otherwise specified in this tariff, Qualified Customers in the Program shall receive service in accordance with all terms and conditions of the standard gas service tariffs applicable to residential customers.

1. <u>Availability</u>:

GAP is available to residential customers in the MERC Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program ("LIHEAP") during the federal fiscal year ("Program Year").

2. <u>Program Description and Rate Impact for Qualifying Customers</u>:

This Program shall meet the conditions of Minnesota Statutes, Chapter 216B.16, Subd. 15 on low income programs. The Program has two components: 1) Affordability, and 2) Arrearage Forgiveness. MERC or an agent of MERC, will review current billing and consumption information, approved LIHEAP benefits and household income information as submitted to MERC to determine a Qualified Customer's affordability bill credit and arrearage forgiveness. A Qualified Customer's payment each month shall include both payment of the customer's current month's bill after inclusion of the affordability bill credit, and payment of a portion of the Qualified Customer's pre-program arrears.

2.1. *Affordability Component:*

The Affordability component consists of a bill credit determined as one-twelfth of the difference between MERC's estimate of the Qualified Customer's annual gas bill and 6% of the Qualified Customer's household income as provided by the Qualified Customer to MERC. This bill credit is a Program cost that will be included in the Tracker. Any energy assistance sums not applied to arrears will be applied to a Qualified Customer's current bill.

2.2. *Arrearage Forgiveness Component:*

The Arrearage Forgiveness component consists of a monthly credit that will be applied each month after receipt of the Qualified Customer's payment. The credit will be designed to retire pre-program arrears over a period of up to 24 months, with the Company matching the Qualifying Customer's contribution to retiring pre-program arrears. The credit is determined by taking the pre-program arrears divided by the number of months to retire the arrears divided by two and then subtracting any energy assistance sums received by the Company on behalf of the customer divided by the number of months remaining to retire the arrears divided by two. This arrearage forgiveness credit is a Program cost that will be included in the Tracker.

3. Conditions of Service:

3.1. Enrollment participation is limited to a first come first served basis until the estimated Program dollar cap is reached.

3.2. Before the start of an enrollment period, MERC will mail information on the Program and an application to participate in the Program to targeted current LIHEAP customers in arrears. The application for participation must be completed in full and returned to MERC before the close of the enrollment period.

3.3. Regardless of arrears balances, MERC agrees to maintain service and suspend collection activities to Qualified Customers if they maintain their payment schedule.

3.4. Qualified Customers must maintain an active MERC account in said customer's name at their permanent primary residence only to be eligible for this Program.

3.5. Qualified Customers agree to notify MERC of any changes in address, income level, or household size. Such changes may result in removal from the Program. Additionally, Qualified Customers who do not continue to qualify under the provisions of Section 1 above can be removed from the Program.

3.6 If a Qualified Customer fails to pay two consecutive monthly payments in full under the Program, they will be terminated from the Program and will be subject to MERC's regular collection practices including the possibility of disconnection.

4. Funding:

4.1. Total Program costs, which include start-up costs, Affordability component, Arrearage Forgiveness component and incremental administration costs incurred collectively by MERC shall not exceed $750,000 per year plus the estimated tracker balance as of December 31, 2011. MERC shall limit administrative costs included in the Tracker (except start-up related costs) to 5% of total Program costs. Administrative costs will include, but are not limited to, the costs to inform customers of the Program and costs to process and implement enrollments.

4.2. MERC shall recover Program costs in the Delivery Charge applicable to all firm service customers receiving service under Rate Schedules GS-NNG General Service and GS-Consolidated General Service.

4.3. A tracking mechanism ("Tracker") will be established to provide for recovery of actual Program costs as compared to the recovery of Program costs through rates. MERC will track and defer Program costs with regulatory approval. The prudency of the Program costs are subject to regulatory review.

4.4. Program costs shall be recovered in the GAP Surcharge for all firm service customers receiving service under Rate Schedules GS-NNG General Service and GS-Consolidated General Service. Effective April 1, 2019, the surcharge shall be $0.00905 per therm. MERC may petition the Commission to adjust this rate in order to true-up the Program balance in the Tracker either in a general rate case, in an annual GAP report filing, or in a future GAP evaluation filing. .

5. <u>Evaluation:</u>

5.1. The Program shall be evaluated before the end of the four year term and may be modified based on annual reports and on a financial evaluation.

5.2. The annual reports will include the effect of the Program on customer payment frequency, payment amount, arrearage level and number of customers in arrears, service disconnections, retention rates, customer complaints and utility customer collection activity. The annual reports may also include information about customer satisfaction with the Program.

5.3. The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program.

6. <u>Program Revocation:</u>

The Program, upon approval by the Commission, is effective unless the Commission, after notice and hearing, rescinds or amends its order approving the Program.

7. <u>Term:</u>

The Program is approved through December 31, 2023, with annual reports to be filed by March 31 each year and a program evaluation to be filed by May 31, 2023.

8. <u>Applicability:</u>

Unless otherwise specified in this tariff, Qualified Customers in the Program shall receive service in accordance with all terms and conditions of the standard gas service tariffs applicable to residential customers.

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2019 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years	Docket No. G011/M-19-___

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 31st day of May, 2019, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Petition 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 31st day of May, 2019.

/s/ Kristin M. Stastny
Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_15-539_M-15-539
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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-539_M-15-539
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Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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