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March 13, 2013

**VIA ELECTRONIC FILING**

Dr. Burl W. Haar  
MN Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101-2147

RE: 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

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Second Annual Report in the  
above-referenced Docket. An Affidavit of Service is included.

Please contact me at the number above should you have any questions regarding this  
matter.

Yours truly,

Marcia A. Podratz

kl  
Attachments  
c: Service List

**STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

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

**SECOND ANNUAL REPORT**

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Customer Affordability of Residential Electricity

Docket No. E015/M-11-409

**SECOND ANNUAL REPORT**

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**I. INTRODUCTION**

Minnesota Power (“Company”) submits its Second Annual Report on its Pilot Rider for Customer Affordability of Residential Electricity (“CARE”) to the Minnesota Public Utilities Commission (“Commission”) in compliance with the Commission’s September 26, 2011 Order Authorizing Pilot Program and Setting Further Requirements and the Commission’s July 18, 2013 Order accepting Report as Supplemented, Adopting Reporting Requirements, and Modifying Renewal Date.

The CARE Program Second Annual Report includes the previous reporting requirements as provided in the First Annual Report<sup>1</sup> and additional reporting requirements as required by the Commission’s July 18, 2013 Order:

**Previous Reporting Requirements**

- Program Description and Background
- Program Administration and Features
- Program Tracker, Funding, and Administrative Costs
- Program Retention, Satisfaction, Enrollment, and Customer Energy Usage

**Additional Reporting Requirements**

- Participant Payment Frequency and Payment History
- Disconnections and Reconnections

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<sup>1</sup> Minnesota Power First Annual Report dated January 16, 2013

- Participant Average Payment Amount
- Arrearage Level
- Coordination with Other Available Low-income Bill Payment Assistance and Conservation Resources
- Participant Billing Impacts
- Participant Electric Usage
- Program Objectives Review

### **Possible Modifications to the CARE Program**

- Minnesota Power Discussions with Organizations
- Proposed Modifications to the CARE Program

## **II. CARE PROGRAM PREVIOUS REPORTING REQUIREMENTS**

### **A. Program Description and Background**

Minnesota Power's CARE Program became effective November 1, 2011. This Second Annual Report covers the period October 1, 2012 through September 30, 2013 ("program year 2013"). The Program is designed to provide a discounted energy rate to Minnesota Power residential Low Income Home Energy Assistance Program ("LIHEAP") qualified customers, and to decrease participating customers' arrears over a designated time period. On December 3, 2012, the Commission approved changes to the service conditions effective January 1, 2013. These changes (the increase of the rate discount, encouragement instead of requirement for participating customers to complete the Your Home Energy Report ("YHER"), the discontinuation of the budget billing requirement except for participants with overdue unpaid balances, and the modification of the CARE application), in addition to the Company's enhanced marketing efforts, provided a better administration tool, resulted in increasing participation, and had a positive impact on CARE.<sup>2</sup>

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<sup>2</sup> Minnesota Power's Reply Comments dated March 1, 2013, Section II, page 1-3.

## **B. Program Administration and Features**

### **1. Customer Solicitation, Outreach and Coordinated Efforts with Other Agencies**

In its second year, the marketing efforts of the CARE Program started in a similar fashion to the first year as described in the Company's First Annual Report.<sup>3</sup> However, in February 2013, the Company's administrative agency, Arrowhead Economic Opportunity Agency ("AEOA") conducted a targeted mailing to customers who were LIHEAP qualified but had not yet applied to the CARE Program since October 1, 2012. The targeted mailing in addition to coordinated outreach efforts resulted in increased participation throughout the program year. These efforts, including the interactions with agencies, are detailed in Attachment A.

### **2. Budget Payment Plan**

A customer must agree to be placed on a budget payment plan in order to participate in CARE only if the customer has an overdue unpaid balance. A budget payment plan is optional for customers without arrears.

### **3. Application Renewal**

Customers must re-apply every year to continue receiving service under the CARE Program. Effective with the Commission's July 18, 2013 Order, customers have until December 31 to renew their applications. If an application is not renewed, the customer is removed from the CARE Program on December 31 and placed back on the standard Residential rate schedule.

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<sup>3</sup> Minnesota Power's Annual Report dated January 16, 2013, Section III, page 1-2.

#### 4. CARE Program Features

In the second year of CARE, the features remain the same with a rate discount component and a budget billing process, whereby customers' arrears are spread over a 24-month period, as described in the First Annual Report.<sup>4</sup> In Section IV.B.1 below, Minnesota Power discusses a proposal modifying the treatment of arrearage as required by the Commission Order dated July 18, 2013, Order Point 4.

### C. Program Tracker, Funding and Administrative Costs

#### 1. CARE Tracker

A summary of the CARE tracker is provided below in Table 1, and details of the CARE tracker are provided in Attachment B. The Program tracker balance brought forward was \$613,541. The total discounts of \$719,437 provided to CARE customers were more than 75 percent of the affordability surcharge amount collected of \$955,817. The tracker balance increased in program year 2013, but at a much slower rate than in the first year of the program. During April and May 2013, when CARE energy charge discounts were at the highest levels and customer participation was also high, the tracker balance declined.

Table 1

Line No.	CARE Rider Pilot Program Tracker Summary (Oct 2012 - Sep 2013)	
1	Average Number of Customers	3,395
2	Tracker Balance Brought Forward	\$613,541
3	Affordability Surcharge Collected	\$955,817
4	Total Discount Provided to Customers	(\$719,437)
5	Accrued Interest	\$26,196
6	Total Tracker Balance	\$876,117
7	Average Monthly Discount Amount Per Customer (\$)	(\$18)

<sup>4</sup> Minnesota Power's Annual Report dated January 16, 2013, Section IV, page 4-5

## **2. Program Funding**

The CARE Program was funded by a per-service-agreement Affordability Surcharge of \$0.65 per month for all customer classes through November 2012. Beginning in December 2012, the Affordability Surcharge was set on a per-service-agreement basis, but at different rates for each customer class. The Affordability Surcharge rate is not applicable to LIHEAP-qualified customers or the Lighting class. The Company collected \$955,817 for Program costs through the Affordability Surcharge. The Program tracker balance brought forward and the surcharge collected are shown in lines 2 and 3 in Table 1 above and in Attachment B line 35, column [a] and line 19 column [n], respectively.

## **3. Program Administrative Costs**

Administrative costs are the external incremental expenses related to the CARE program. These include items such as mailings and AEOA expenses. In program year 2013, the administrative costs the Company incurred were \$36,659. As ordered by the Commission, the Company did not recover CARE administrative costs through the tracker account for the period October 1, 2012 through September 30, 2013. In its July 18, 2013 Order the Commission required Minnesota Power to demonstrate that the CARE Program meets the low-income affordability program objectives described in Minn. Stat. §216B.16, subd. 15(b) prior to further review of recovery of administrative costs.<sup>5</sup> This is further discussed in Section III.H below.

## **D. Program Retention, Satisfaction, Enrollment, and Customer Energy Usage**

### **1. Program Retention**

Table 2 below shows the breakdown in number and percentage of CARE participants' length of stay in the Program during program year 2013. The total number of participants enrolled at any time during the year in the CARE Program in program year 2013 was 5,824, and there were 4,508 participants at the end of the program year. A total of 1,316 customers were

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<sup>5</sup> Docket E015/M-11-409, MPUC Order Accepting Report as Supplemented, Adopting Reporting Requirements, and Modifying Renewal Date, dated July 18, 2013, Section III, page 5.

removed from the program during the program year 2013. By this method of calculation, the retention rate was 77 percent during program year 2013, compared to 75 percent during program year 2012, where there were 2,669 total participants and 1,991 participants at the end of the program year.

Table 2

Retention Period Oct 1, 2012 - Sep 30, 2013		
Designation	Number of Customers	Percentage of Customers
In Year 2013 Participants stayed 0 - 30 days	83	1%
In Year 2013 Participants stayed 31 - 60 days	74	1%
In Year 2013 Participants stayed 61 - 90 days	620	11%
In Year 2013 Participants stayed 91 - 150 days	798	14%
In Year 2013 Participants stayed over 151 days	<u>4,249</u>	<u>73%</u>
Total Participants	5,824	100%

## 2. Program Satisfaction

The Company's Customer Call Center received fewer CARE-related calls in program year 2013 than it received in program year 2012. In program year 2012, the Company tracked over 1,000 calls from customers requesting to be removed from the Program, compared to 27 calls received in program year 2013, and this was mainly because of the change in the budget billing requirement.

## 3. Current Enrollment

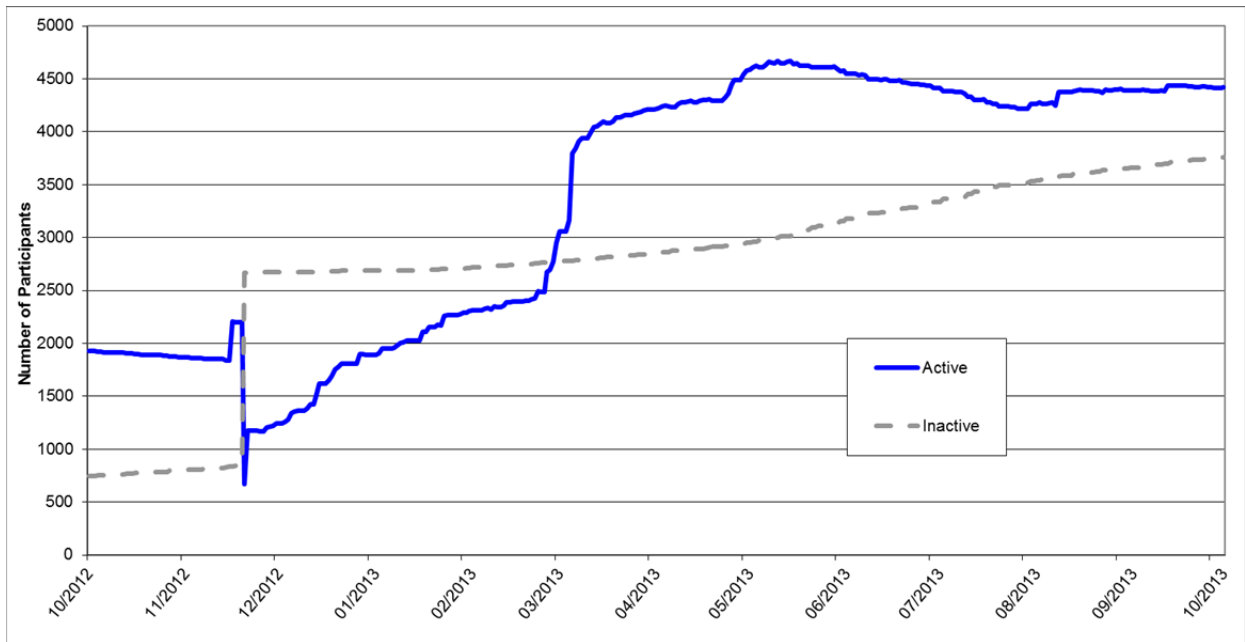
Chart 1 below provides the enrollment trend throughout program year 2013. The solid blue line represents the number of active CARE participants. The dotted gray line represents inactive customers. Inactive customers are those who were at one time participating in CARE, but are no longer in the program. The sharp drop observed in mid-November 2012 was because all customers were given until November 15 to renew their applications for continued eligibility. In the second program year the deadline to re-enroll was changed from November 15 to December 31,<sup>6</sup> with the hope that this extension would provide sufficient time for customers to

<sup>6</sup> MPUC Order dated Dec 18, 2013. Order Point number 3, page 6.



renew their applications and thus increase the number who stay in the program. This has not been the case, as further discussed in Section IV.B.2 below.

Chart 1  
**CARE Program Participation**  
Oct 1, 2012 – Sep 30, 2013



#### 4. CARE Program Customers with High Energy Usage

Chart 2 below shows the percentage of CARE Program customers with high energy usage compared to high-usage LIHEAP customers and high-usage customers on the standard Residential rate schedule. High-usage customers are defined as those who use an average of 1,000 kWh or more per month.

Chart 2

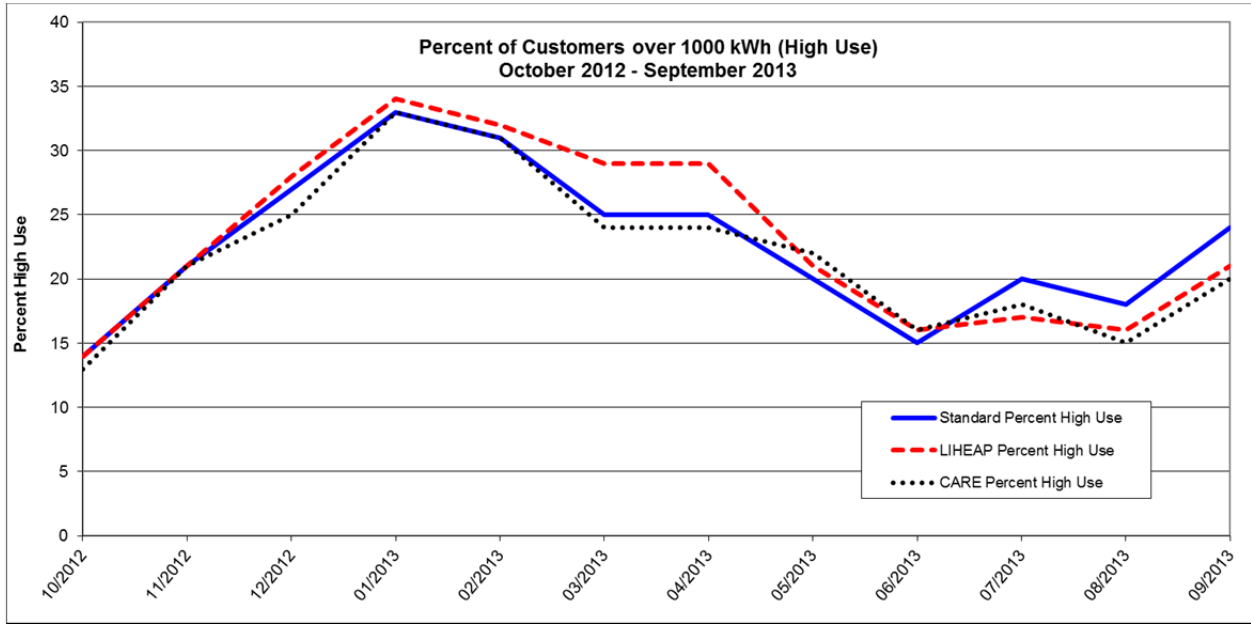
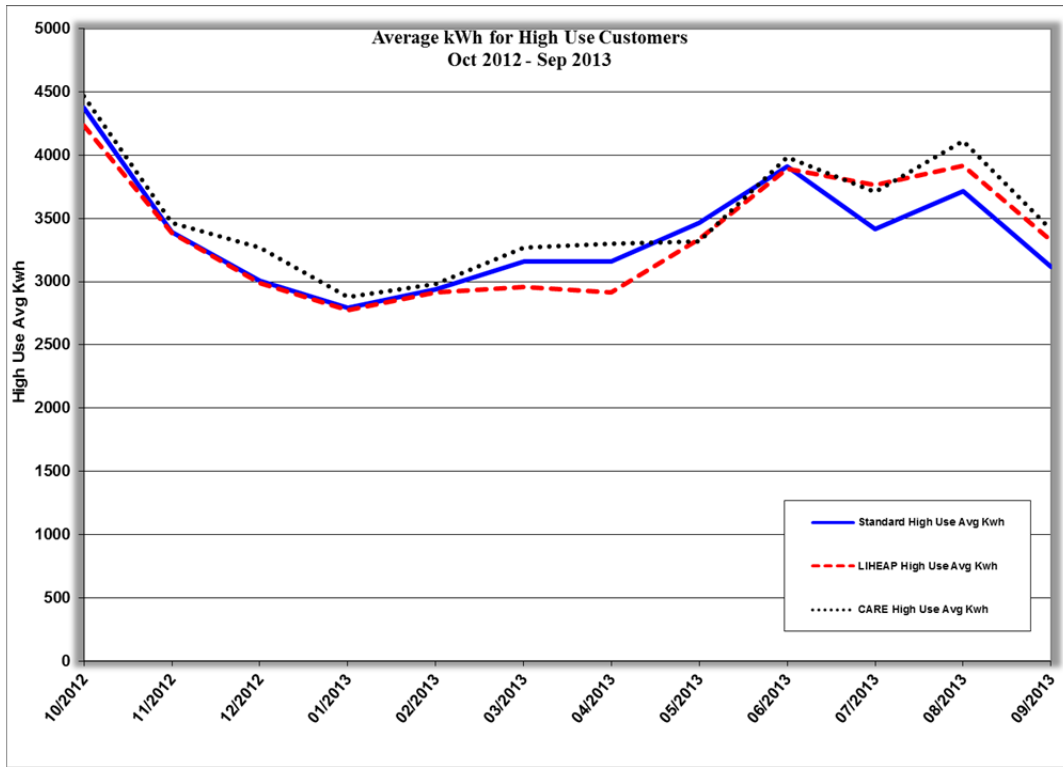


Chart 3 below shows the average energy usage (kWh) for high-use CARE customers, LIHEAP customers, and standard Residential customers.

Chart 3



### III. ADDITIONAL REPORTING REQUIREMENTS

#### A. Participant Payment Frequency and Payment History

Table 3 below shows the payment frequency and history of CARE participants in program year 2013 (period October 2012 to September 2013) on line 1, compared to program year 2012 (period October 2011 to September 2012) on line 4, and the year prior to CARE Program implementation (period October 2010 to September 2011), on line 5. Program year 2013 LIHEAP and LIHEAP Non-CARE details are shown on lines 2 and 3, respectively. The Company used the same group of CARE customers for program year 2013 to obtain comparison information for program years 2012 and 2011.

CARE participants are a mix of LIHEAP recipients and LIHEAP-qualified customers. Customers may or may not have received grant assistance; therefore the impact of LIHEAP grant has not been isolated. A full or partial payment counts as a payment and is not noted differently in the Company’s Customer Information System (“CIS”).

Table 3

<b>Customer Payment Frequency and History</b>						
Line No.	Period	Designation	Total Bills		Total Payments	
			Amount	Count	Amount	Count
1	Oct 2012-Sep 2013	CARE Participants	\$5,585,054	69,367	\$5,516,304	70,395
2		LIHEAP	\$10,513,877	131,657	\$10,481,520	124,130
3		LIHEAP Non-CARE	\$4,928,823	62,315	\$4,965,216	53,735
4	Oct 2011-Sep 2012	CARE Participants	\$5,226,016	65,936	\$5,257,115	68,078
5	Oct 2010-Sep 2011	CARE Participants	\$5,089,918	61,616	\$5,095,347	63,650

## **B. Disconnections and Reconnections**

### **1. Disconnections**

Table 4 below shows the percentage of CARE Program participants disconnected compared to the percentage of all residential firm customers disconnected and LIHEAP customers who did not participate in the CARE Program. While participating in the CARE Program, customers are not disconnected; disconnections occur either before enrollment in the Program or after removal from the Program.

The percentage of CARE Program participants disconnected is the number of customers that had been on the CARE Program before being removed and then disconnected, divided by the total number of CARE Program participants that were enrolled during program year 2013.

The percentage of LIHEAP non-CARE customers disconnected is the number of LIHEAP-qualified customers that did not participate in CARE and were disconnected during program year 2013, divided by the total number of LIHEAP non-CARE customers.

The percentage of all firm customers disconnected is the number of all customers disconnected during program year 2013 divided by the total number of all residential firm customers. The number of all firm customers includes all Minnesota Power residential customers, except customers served under interruptible rates.

Table 4

<b>Disconnection Period: Oct 1, 2012 - Sep 30, 2013</b>			
<b>Designation</b>	<b>Total Number of Customers</b>	<b>Total Number of Disconnections</b>	<b>Percentage of Disconnections</b>
	[a]	[b]	[c] = [b] / [a]
CARE Participants	5824	216	4%
LIHEAP Customers non-CARE	5358	690	13%
All Residential Customers	113543	3103	3%

## 2. Reconnections

Table 5 provides the percentage of CARE Program participants, LIHEAP non-CARE Customers and All Residential Customers reconnected compared to the number of members of the same groups that were disconnected as shown in Table 4 above, column [b].

Table 5

<b>Reconnection Period: Oct 1, 2012 - Sep 30, 2013</b>			
<b>Designation</b>	<b>Total Number of Disconnections</b>	<b>Total Number of Reconnections</b>	<b>Percentage of Reconnections</b>
	[a]	[b]	[c] = [b] / [a]
CARE Participants	216	176	81%
LIHEAP Customers non-CARE	690	537	78%
All Residential Customers	3103	2465	79%

**C. Participant Average Payment Amount**

**1. Total Annual Participants in the CARE Program**

During program year 2013 of the CARE Program, there was an overall total of 5,824 participants. This number includes the total number of customers enrolled in the CARE Program at any time during program year 2013. For the 5,824 customers, the average annual and monthly bill credit amounts were \$124 and \$10, respectively. The average annual and monthly total bills per customer were \$959 and \$80, respectively. The average annual and monthly arrearage amounts per customer were \$31 and \$3, respectively. These averages are shown in Table 6 below. The Company believes that these averages are somewhat misleading because some customers were in the program for less than a full year and some customers had zero arrears, which could distort the averages.<sup>7</sup> Therefore, additional averages calculated for the average number of CARE participants for the entire year and for customers with non-zero arrears are provided in Section III.C.2 below.

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<sup>7</sup> The average arrearage amounts in Table 6 are calculated in a similar manner to CenterPoint, as required by the Commission’s July 18, 2013 Order in this docket. The arrearage amounts are not limited to only CARE participants who have arrears. The amounts are for those customers who were labeled CARE participants, but for various reasons were removed from the Program, some of whom had no arrears.

Table 6

<b>Customer Average Payment Amount for CARE Total Participants</b>				
Designation	Total Number of Participants	Annual Total	Average Annual Total	Average Monthly Total
	[a]	[b]	[c] = [b]/[a]	[d] = [c]/12
Average Bill Credit or Discount Amount	5,824	\$719,437	\$124	\$10
Average Total Billed Amount	5,824	\$5,585,054	\$959	\$80
Average Arrearage Amount	5,824	\$179,498	\$31	\$3

**2. Annual Average Participants in the CARE Program**

During program year 2013, the average number of participants in the CARE Program was 3,395 as shown in Table 1, line 1 above. For this group of 3,395 participants, the average annual and monthly bill credit amounts were \$212 and \$18, respectively. The count of customers during program year 2013 who were enrolled in the CARE Program at one point in time but have now been removed from the program and who had arrears was 1,179. The average annual and monthly arrearage amounts per customer for the 1,179 customers were \$152 and \$13 respectively. This is shown in Table 7 below.

Table 7

<b>Customer Average Payment Amount for CARE Average Participants</b>				
Designation	Average Number of Participants	Annual Total	Average Annual Total	Average Monthly Total
	[a]	[b]	[c] = [b]/[a]	[d] = [c]/12
Average Bill Credit or Discount Amount	3,395	\$719,437	\$212	\$18
Average Total Billed Amount	5,824	\$5,585,054	\$959	\$80
Average Arrearage Amount	1,179	\$179,498	\$152	\$13

**D. Arrearage Level**

The change in the arrearage level for the average CARE Program customer compared to LIHEAP customers who are not enrolled in the CARE Program and the average level of arrearage of all residential customers cannot be entirely provided at this time. Partial information is provided in Table 8 below.

When a customer with arrears is enrolled in the CARE Program, the customer’s arrears are spread over a 24-month period and become part of the current monthly budget billing amount. Once the arrears have been spread over 24 months, the original arrears amount is not saved in a separate field in the Company’s CIS.

Table 8 provides arrears for customers who were enrolled in CARE at a point in time and are no longer CARE participants. This report was run on October 31, 2013. Table 8 also shows arrears for all LIHEAP customers at a point in time, which is November 5, 2013. Because the Company had not run and stored a report providing arrears for LIHEAP non-CARE customers on November 5, 2013, the information is provided by subtracting all CARE participants’ data from LIHEAP customers’ data. The residential customer arrears report for the same period was not available, and thus the residential customer arrears status cannot be provided at this time.



Table 8

<b>ARREARS STATUS</b>				
Lin No.	Designation	Customer Count	Total Arrears	Average Arrears
		[a]	[b]	[c] = [b] / [a]
1	All CARE Participants	5,824	\$179,498	\$31
2	All CARE Participants with Arrears	1,179	\$179,498	\$152
3	All LIHEAP customers	11,182	\$650,679	\$58
4	All LIHEAP with Arrears	5,132	\$650,679	\$127
5	All LIHEAP non-CARE <sup>1/</sup>	5,358	471,182	\$88
6	All LIHEAP non-CARE with Arrears <sup>2/</sup>	3,953	471,182	\$119
	1/ The numbers in column [a] and [b] were obtained by subtracting line 1 from line 3			
	2/ The numbers in column [a] and [b] were obtained by subtracting line 2 from line 4			

Starting in January 2014, the Company has taken the necessary steps to run and store this information monthly, and it will be supplied in next year’s annual report.

**E. Coordination with Other Available Low-income Bill Payment Assistance and Conservation Resources**

Information relating to how and when Minnesota Power has coordinated its CARE Program with other available low-income and conservation resources, naming the agencies the Company has coordinated with, how often the Company has communicated with those agencies during the program year, the content of those communications, and what was accomplished by such coordination is further discussed in Section III.H.5 below.

## F. Participant Billing Impacts

Table 9 below compares the average CARE Program participant's annual and monthly billing to the average annual and monthly program bill credit for the overall 5,824 participants.

Table 9

<b>CARE Participant Billing Impact. Period: Oct 1, 2012 - Sep 30, 2013</b>					
	All CARE Participants		Total Number of Customers	Average Per Customer	
	Total Amount	Monthly Amount		Annual Amount	Monthly Amount
CARE Bill <sup>2/</sup>	\$5,585,054	\$465,421	5,824	\$959	\$79.91
CARE Credit/Discount	\$719,437	\$59,953	5,824	\$124	\$10.29 <sup>1/</sup>

1/ This is an average for the overall number of CARE participants. Not all 5,824 participants stayed in the program for 12 months.

2/ CARE Bill includes the CARE discount

## G. Participant Electric Usage

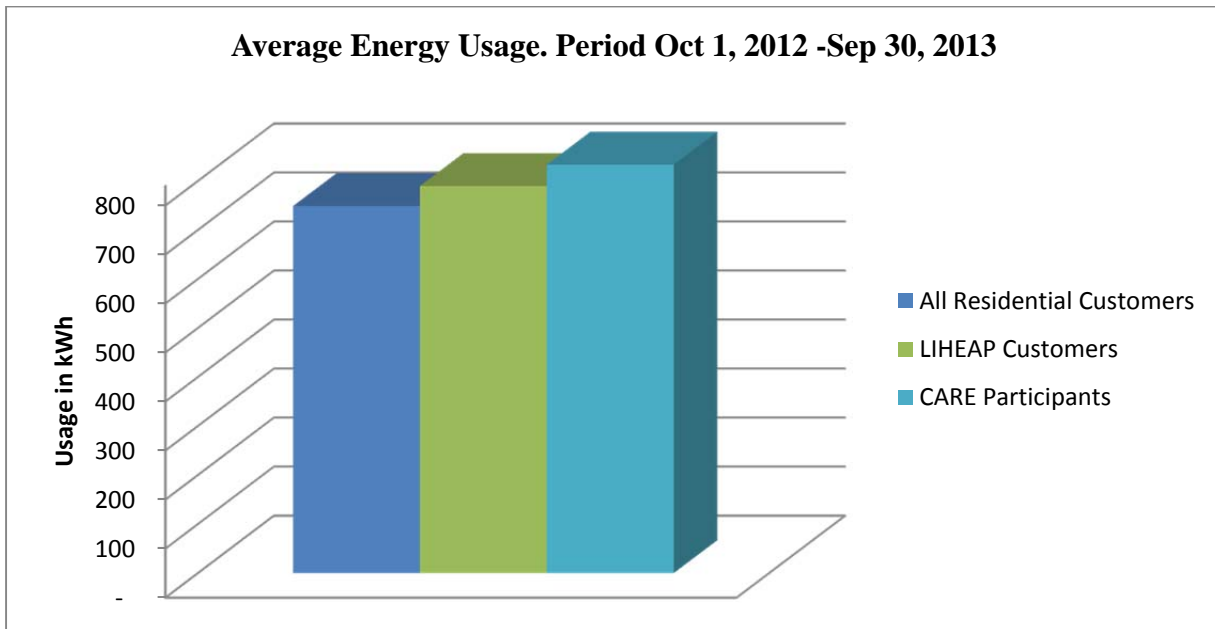
Table 10 below shows a comparison of average monthly electric usage for all of Minnesota Power's residential customers, LIHEAP customers and CARE Program participants.

Table 10

<b>CARE Participants Electric Usage. Period: Oct 1, 2012 - Sep 30, 2013</b>			
Designation	Total Annual Usage kWh	Number of Customers	Average Monthly Usage - kWh
All Residential Customers	1,088,609,265	121,141	749
LIHEAP Customers	105,975,844	11,182	790
CARE Participants	58,237,015	5,824	833

CARE participant average usage was approximately ten percent higher than average residential customer usage and about five percent higher than the average usage for all LIHEAP customers as shown in Chart 4 below.

Chart 4



### H. Program Objectives Review

The Commission in its July 18, 2013 Order, stated that it defers review of recovery of the Company's CARE administrative costs until Minnesota Power has demonstrated in its next annual report that its CARE Program meets the low-income affordability program objectives described in Minn. Stat. §216B.16, subd. 15(b).<sup>8</sup> The Minnesota Statute specified five requirements for affordability programs as follows:

*(1) Lower the percentage of income that participating low-income households devote to energy bills.*

<sup>8</sup>Docket No. E-018/M-11-409, MPUC Order dated July 18, 2013, Section III, page 5

Minnesota Power’s CARE Program does not directly link the customer’s bill to the customer’s income. However, the State of Minnesota, Department of Information Technology provided the percentage of income Minnesota Power customers devoted to their electric bill. The program year or heating season is October 1 to September 30. The State compares recent income, for three months prior to the customer’s application, to electric expenditures from the previous heating season. For example if a customer applied in November 15, 2013, the State would use income from October, September, and August 2013 and electric expenditures from the heating season that included October 2012 thru April 2013. The percentage of income Minnesota Power’s LIHEAP-qualified customers devoted toward their electric bill has decreased by 0.5 percent since the inception of the CARE Program (see Table 11 below). This information could not be extracted for CARE Program participants alone because it would have been labor intensive and would have required manual manipulation. The CARE Program participants are drawn from LIHEAP-qualified customers, so it is reasonable to assume that the percentage of income CARE Program participants devoted to their electric bills is similar, and that a discounted energy rate such as the CARE Program reduces the percentage of CARE participants’ income devoted to their electric bills.

Table 11

Year	Percentage of Income MP LIHEAP Customers Devoted to Electric Bill
2012	5.80%
2013	5.30%
2014	5.30%

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

Table 3 above in Section III.A and the summary in Table 12 below; provide customers’ payment history and payment frequency. The total amount billed and payments are provided for the same set of customers for “program year 2011” (the year prior to the creation of the CARE Program), along with program year 2012 and program year 2013. The number of payments increased by a cumulative total of three percent from program year 2011 to program year 2013.

Table 12

Program	Customer Payment History and Frequency - CARE Program				
	Bills		Payments		Yearly % Increase
Year	Amount	Count	Amount	Count	
2013	\$5,585,054	69,367	\$5,516,304	70,395	1%
2012	\$5,226,016	65,936	\$5,257,115	68,078	2%
2011	<u>\$5,089,918</u>	<u>61,616</u>	<u>\$5,095,347</u>	<u>63,650</u>	
Total	\$15,900,989	196,919	\$15,868,765	202,123	

*(3) Decrease or eliminate participating customer arrears*

As stated in Section III.D above, the Company has taken steps using its CIS to run and store the information that will accurately measure arrears on a monthly basis starting January 2014. The arrears figures provided pertain only to customers who were removed from the CARE Program at a point in time and had accumulated arrears afterward. In program year 2012, the average arrears balance for the overall 2,669 customers who participated in the CARE Program was \$30. In program year 2013, the average arrears balance for the overall 5,824 participants is \$31. The customers' arrears have remained practically the same. However, the payment frequency increased by three percent, and the Company believes that retaining customers in the CARE Program will help to alleviate customers' arrears. This is further discussed in Section IV.B.2 below.

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

Chart 5 below shows the number of disconnection notices given to Residential customers from October 2010 to September 2013. The number of notices was up slightly in program year 2012, and went up significantly in program year 2013, because a higher percent of notices were mailed vs. hand delivered as this is a more efficient use of time and labor. The resulting number of involuntary disconnections was also high in program year 2012, but went down by approximately 15% in program year 2013 as shown in Chart 6 below. As the number of disconnections decrease, the costs associated with collection activities decreases as well.

Chart 5

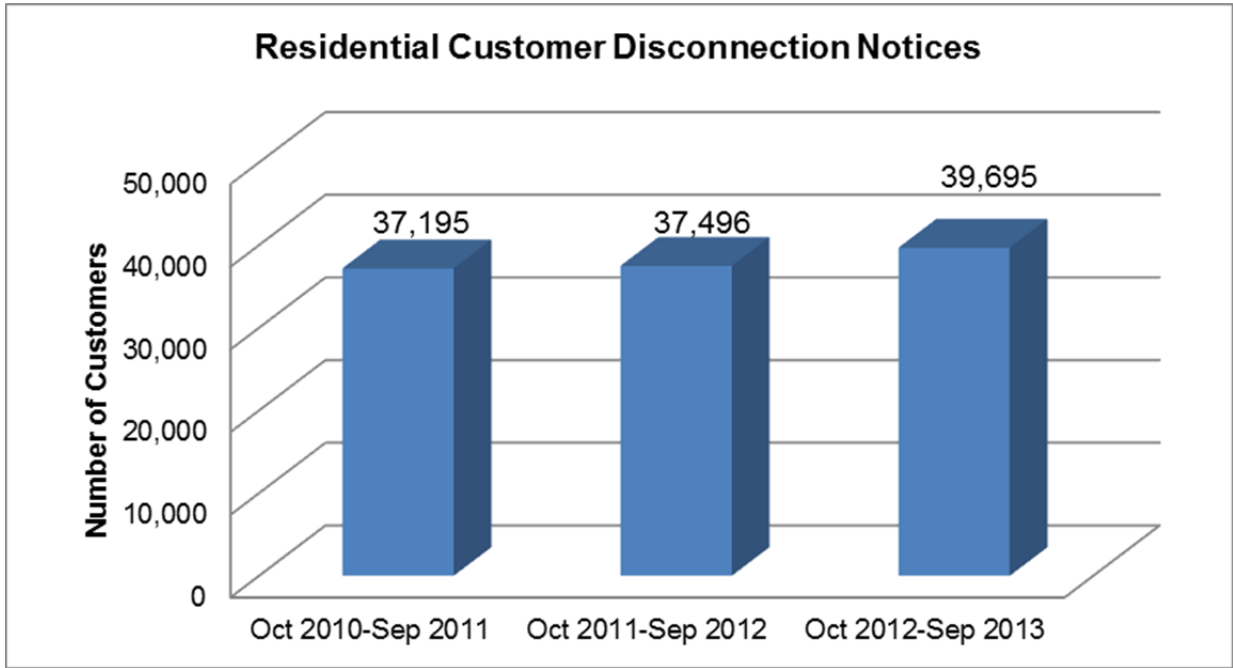
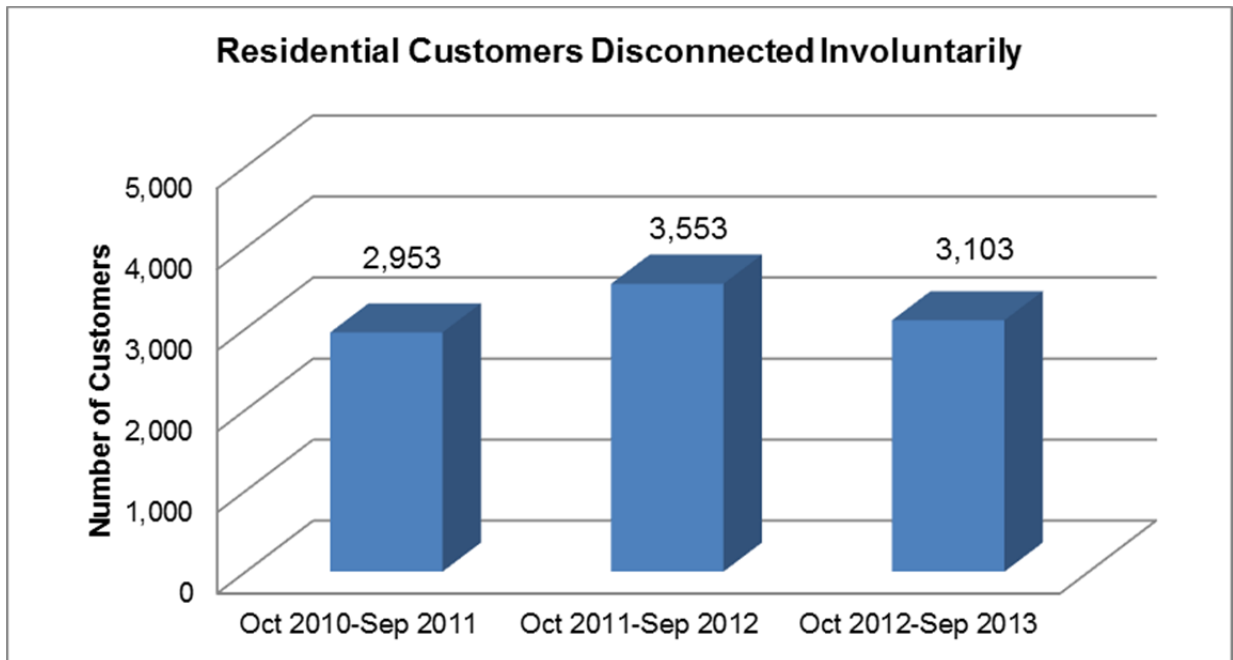


Chart 6



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

Minnesota Power continues to reach out to low-income customers with energy-efficient products and services to help them use energy more effectively through its Energy Partners low income energy conservation program. One of these educational services is increasing customer awareness of the CARE Program while providing services like Home Energy Analysis and direct installation of energy-saving devices to income-eligible customers. These services are provided primarily through eight local community agencies (Kootasca Community Action Council, Arrowhead Economic Opportunity Agency, Virginia, Mahube Community Council, Bi-County Community Action Program, Lakes and Pines Community Action, Tri-County Community Action, and Duluth Community Action).

An annual “Listening Session” is held with these participating agencies to give updates on the CARE Program and Energy Partners program. Feedback gathered from the agencies at the December 5, 2012, session was implemented in 2013 to increase awareness about the CARE Program and streamline the process for customers. Minnesota Power finds this feedback very valuable because the agencies are in the field interacting face-to-face with potential CARE Program eligible customers. Suggestions and feedback implemented in 2013 included changes to the CARE brochure, increased marketing to customers via mailings (postcard and brochure), internal communications, and direct calls to customers. At the December 12, 2013 “Listening Session”, agencies provided feedback indicating that the changes were beneficial and that customer awareness had increased compared to the prior year.

In addition to “Listening Sessions” held with area agencies, Minnesota Power also holds an annual Energy Awareness Expo (most recently held on October 24, 2013) in collaboration with the City of Duluth, ComfortSystems, AEOA, United Way, Community Action Duluth and other fuel suppliers. At the October 2013 Expo, Community-based agencies provided low-income customers with energy education and information about available energy assistance. Minnesota Power employees were on hand to answer questions and raise awareness about the CARE Program at Minnesota Power’s table and in an additional “CARE Room,” where

customers had the opportunity to learn more about the CARE Program, ask questions, and fill out applications.

Minnesota Power continues to encourage CARE Program customers to fill out the YHER; an online optional survey (included in the CARE brochure) which gives customers a personalized report of their energy usage and recommendations towards creating an energy action plan. The YHER is also an opportunity to increase awareness of available Conservation Improvement Programs. The Home Energy Analysis results in direct installation of site specific energy-saving devices for customers such as energy-efficient lighting, timers, and refrigerators. The collaboration with Minnesota Power's Energy Partners low-income energy conservation program and area agencies in regard to the CARE Program resulted in the following positive outcomes:

○ CARE participants who completed a YHER	2,644
○ CARE participants who received a Home Energy Analysis	671
○ Direct installations resulting from Home Energy Analysis for CARE Participants	1,930
○ CARE participants who participated in Company energy conservation programs	4,768

This shows a strong correlation between the CARE Program and Minnesota Power's conservation program, thereby helping customers through both decreased rates and energy-saving opportunities.

Minnesota Power believes that its CARE Pilot Program meets the low-income affordability program objectives as described in Minn. Stat. §216B16, subd. 15(b) and demonstrated above. In program year 2013, the Company provided total rate discounts of \$719,437, as shown in Attachment B, line 27, column n and incurred total administrative costs of \$36,659. The administrative costs incurred are within the limit of the maximum of five percent of total program costs specified in Minn. Stat. §216B.16, subd. 15(d). Minnesota Power respectfully requests that the Commission favorably consider its request to recover the CARE Program administrative costs through the current tracker.



#### **IV. POSSIBLE MODIFICATIONS TO THE CARE PROGRAM**

##### **A. Minnesota Power Discussions with Organizations**

Commission Order point 4<sup>9</sup> requires Minnesota Power to consult with the CARE Program administrative agency, AEOA, regarding the following possible modifications to the CARE Program: 1) a requirement that Minnesota Power modify its CARE Program so that customers falling below 50 percent of the state median income can participate in the CARE Program with total monthly budget payment of no more than 10 percent of a household's monthly income, 2) a requirement that Minnesota Power modify its program to incorporate an arrearage forgiveness component, and 3) a requirement that Minnesota Power increase the monthly CARE customer benefit so that payments are capped at no more than a certain percentage of household income. Minnesota Power was further directed to provide comments on these possible modifications in its next annual report.

Minnesota Power consulted with the Salvation Army, who administers the Minnesota Energy Resources Corp. ("MERC") Gas Affordability Program ("GAP"), to learn the details and gain an understanding of how the process works for its GAP. MERC's program is based on a percentage of the household income currently capped at 6 percent.

Based on the information learned, Minnesota Power had a brief conversation with AEOA about potential modifications to the CARE program but did not further investigate the details because the Company determined that its existing CIS cannot handle the process without modifications. The Company is not currently making changes to its 1990s-vintage CIS and is in the process of replacing it. All CIS administrative resources are focusing on the CIS replacement project. The anticipated implementation date of the new CIS is the first quarter of 2015. Until

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<sup>9</sup> Docket E015/M-11-409, MPUC Order dated July 18, 2013; Order point 4, pages 6 – 7.

then, the Company respectfully requests to continue to handle arrears as part of the current budget billing.

Minnesota Power has, however, been working with its new CIS implementation consultant and has reviewed potential modifications to the CARE Program based on percentage of income and also on total arrearage forgiveness. Minnesota Power and the CIS implementation consultant have determined that a total arrearage forgiveness component similar to what CenterPoint Energy provides to its customers is not only the best option administratively, but also a more straightforward option for Minnesota Power customer comprehension. In light of this, Minnesota Power proposes the arrearage forgiveness component described in the next section, for potential implementation in program year 2016 (period October 2015 to September 2016), following the implementation of the Company's new CIS.

## **B. Proposed Modifications to the CARE Program**

### **1. Arrearage Forgiveness Component**

As noted above, the Commission required that Minnesota Power provide comments in its next annual report regarding the possibility of Minnesota Power modifying its CARE Program to incorporate an arrearage forgiveness component.<sup>10</sup> Minnesota Power proposes to implement an arrearage forgiveness component to assist customers in reducing past due balances over time if the customer pays the agreed monthly budgeted amounts on time. The proposed arrearage forgiveness program would work as follows:

- Applicant must be eligible and agree to participate in the CARE Program under the current service conditions;
- Customer account must have an outstanding overdue balance (i.e., arrears to be forgiven);
- Customer's past due balance must be placed in a 24-month CARE payment plan;
- Minnesota Power will forgive a portion of the past due balance by matching the customer's payment amount to the CARE payment plan. This will continue until the arrears from the time of enrollment are paid;

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<sup>10</sup> Docket E-015/M-11-409, MPUC Order dated July 18, 2013, Order Point 4, page 7

- In the event a customer applies, qualifies and receives fuel assistance, the fuel assistance amount will be used to pay the arrearage amount. Minnesota Power will not match amounts paid by a third party.
- If the customer has new arrears, the customer will be removed from the CARE Program.

Minnesota Power believes that the arrearage forgiveness component as described above 1) is less complicated than linking the customer's bill and forgiveness component to a percentage of income;<sup>11</sup> 2) is not as confusing to the customer; and 3) reflects the expectation that the customer will make a bill payment each month. The arrearage forgiveness component also provides a means for customers to pay on time and be rewarded for positive learned behavior while the arrears are being eliminated.

## **2. Re-enrollment Process**

As mentioned in Section II.D.3 above, Minnesota Power observed a similar drastic drop in CARE enrollment during the program year 2014 when the renewal date was reached on December 31, 2013. Despite the extra time allowed and marketing efforts deployed, many participants did not reapply prior to the cutoff renewal date, and were subsequently removed from the Program. On February 2, 2014, the Company ran a report to review the number of customers who were LIHEAP-qualified for the program year 2014, but were removed from the CARE Program on the cutoff renewal date (December 31, 2013) because they had not reapplied for program year 2014. A total of 806 LIHEAP-qualified customers did not re-apply for CARE and were removed from the CARE Program. This clearly shows that extending the renewal date for 45 additional days did not eliminate the sharp drop in enrollments. To address this issue, Minnesota Power suggests the elimination of the CARE re-application requirement process. At the renewal date, only customers who are not LIHEAP-qualified for the new program year would be removed from the CARE Program. Customers previously participating in the CARE Program who qualify for LIHEAP for the new program year would remain on the CARE Program. This will enable Minnesota Power to retain more customers in the CARE Program and continue to provide the discounted rate to a larger number of low-income customers.

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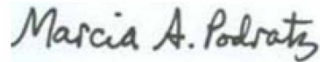
<sup>11</sup> Other companies, such as CenterPoint and MERC, have come to the Commission to request an increase/decrease of income cap because of various issues, including income fluctuation.

## V. CONCLUSION

The Company appreciates the opportunity to provide the Commission with its Second Annual Report on the CARE Program and respectfully requests that the Commission 1) accept the Second Annual Report, 2) delay the implementation of the arrearage forgiveness component, 3) authorize the elimination of the CARE re-application requirement for the CARE Program, and 4) allow the recovery of administrative costs associated with implementing the Program through its tracker mechanism for the period October 1, 2013 through September 30, 2014 and going forward.

Dated: March 13, 2014

Respectfully submitted,



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### **Summary of Minnesota Power's *Major* CARE outreach initiatives in 2013**

#### **February:**

- Created CARE posters and delivered to area agencies.
- Sent brochures as well as met with local non-profits and municipals<sup>1</sup> to discuss the CARE Program.
- 5,545 CARE enrollment letters sent to LIHEAP customers eligible for the CARE program.
- 5,545 Interactive Voice Response (IVR) calls to CARE eligible customers.
- An Intra-company message was run in a company newsletter and displayed on intra-company video monitors from February 13, to March 13, 2013.
- A Minnesota Power Facebook message to customers encouraging participation in the CARE program.

#### **April:**

- 2,437 CARE eligibility letters sent to high usage customers eligible for CARE (average 750 kWh and above). Followed by an IVR call to the same group of customers.

#### **May:**

- CARE YHER Cover Letter along with an email was sent to the Energy Assistance partner agencies that educate and help our customers sign up for the CARE program.

#### **June:**

- CARE Brochures Delivered to area Energy Assistance partner agencies throughout Minnesota Power's service area.

#### **July:**

- 5,338 IVR calls to LIHEAP customers who are currently eligible for our CARE program.
- Updated formatting on our bill to increase visibility for what our customers are saving while enrolled in the CARE program.
- Met with our AEOA representative to discuss program implementation processes and possible improvements for the 2013-2014 Cold Weather Rule (CWR) season.
- Held CARE meeting within Minnesota Power to discuss ways in which to enroll and keep customers in CARE program.

#### **August:**

- Resupply of CARE Brochures delivered to Energy Assistance partner agencies throughout Minnesota Power's service area.
- IVR call to LIHEAP customers who are currently eligible for our CARE program.

#### **September:**

- Informational IVR call to LIHEAP customers who are currently eligible for our CARE program.

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<sup>1</sup> See Minnesota Power Second Annual Reporting dated---, Section III.H, page 17 for the list of Agencies Minnesota Power worked with.

**September (Continued):**

- An Inter-company message was run in a company newsletter and displayed on intra-company monitors again for one month.
- A Minnesota Power Facebook message to customers encouraging participation in the CARE program.

**October:**

- Energy Expo 3,000 LIHEAP customer invitations, with approximately 1,500 participants.
- Re-enrollment CARE letters sent to current CARE customers.

**November:**

- CARE letters sent to all LIHEAP eligible customers currently not in our CARE program.

**December:**

- A Listening Session was held with seven participating agencies to give updates on the CARE and Energy Partners programs.

Line No.	30-Sep-12 [a]	2012			2013									Annual Total [n]
		31-Oct-12 [b]	30-Nov-12 [c]	31-Dec-12 [d]	31-Jan-13 [e]	28-Feb-13 [f]	31-Mar-13 [g]	30-Apr-13 [h]	31-May-13 [i]	30-Jun-13 [j]	31-Jul-13 [k]	31-Aug-13 [l]	30-Sep-13 [m]	
4	<b>Affordability Surcharge Collections</b>													
5		Surcharge changes from flat rate to variable rate by class												
8	Residential	\$64,180	\$67,369	\$68,265	\$54,534	\$51,895	\$51,464	\$50,896	\$50,811	\$50,762	\$50,700	\$50,706	\$50,894	
10	General Service	\$12,649	\$12,708	\$12,575	\$16,227	\$17,175	\$16,965	\$17,080	\$17,070	\$16,924	\$17,311	\$16,957	\$17,100	
12	Large Light & Power	\$219	\$220	\$217	\$750	\$895	\$842	\$862	\$863	\$852	\$874	\$863	\$861	
14	Large Power	\$6	\$6	\$6	\$10,176	\$10,176	\$10,176	\$10,176	\$10,176	\$10,176	\$10,176	\$10,176	\$10,176	
16	Municipal Pumping	\$186	\$183	\$170	\$229	\$239	\$238	\$239	\$240	\$237	\$241	\$239	\$239	
19	<b>A - Total Affordability Surcharge Collections</b>	<b>\$ 77,240</b>	<b>\$ 80,486</b>	<b>\$ 81,233</b>	<b>\$ 81,916</b>	<b>\$ 80,380</b>	<b>\$ 79,685</b>	<b>\$ 79,253</b>	<b>\$ 79,160</b>	<b>\$ 78,951</b>	<b>\$ 79,302</b>	<b>\$ 78,941</b>	<b>\$79,270</b>	<b>\$955,817</b>
22	<b>Rate Discount Costs</b>													
24	Monthly Service Charge Discounts 1/	\$1,951	\$1,857	\$1,496	\$2,001	\$2,416	\$3,807	\$4,400	\$4,753	\$4,630	\$4,454	\$4,462	\$4,508	
25	Energy Charge Discounts	\$21,590	\$26,655	\$25,728	\$42,261	\$54,806	\$71,855	\$84,775	\$79,606	\$67,646	\$68,058	\$63,453	\$72,269	
27	<b>B - Total Discounts</b>	<b>\$ 23,541</b>	<b>\$ 28,512</b>	<b>\$ 27,224</b>	<b>\$ 44,262</b>	<b>\$ 57,222</b>	<b>\$ 75,662</b>	<b>\$ 89,175</b>	<b>\$ 84,359</b>	<b>\$ 72,276</b>	<b>\$ 72,512</b>	<b>\$ 67,915</b>	<b>\$ 76,777</b>	<b>\$719,437</b>
29	<b>C - Program Admin Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$0</b>
31	<b>+A-B-C = Monthly Tracker Balance Change</b>	<b>\$53,699</b>	<b>\$51,974</b>	<b>\$54,009</b>	<b>\$37,654</b>	<b>\$23,158</b>	<b>\$4,023</b>	<b>(\$9,922)</b>	<b>(\$5,199)</b>	<b>\$6,675</b>	<b>\$6,790</b>	<b>\$11,026</b>	<b>\$2,493</b>	<b>\$236,380</b>
32	<b>Interest Calculation</b>													
34	Beginning of month balance	\$613,541	\$669,008	\$722,838	\$778,917	\$818,773	\$844,001	\$850,359	\$842,695	\$839,815	\$848,742	\$857,884	\$871,293	
35	Beginning of month balance: +A-B-C	\$ 613,541	\$720,982	\$776,847	\$816,571	\$841,931	\$848,024	\$840,437	\$837,496	\$846,490	\$855,532	\$868,910	\$873,786	
36	Monthly Average Balance	\$640,390	\$694,995	\$749,842	\$797,744	\$830,352	\$846,012	\$845,398	\$840,095	\$843,152	\$852,137	\$863,397	\$872,539	
37	Annual Prime Interest Rate	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	
39	<b>D - Monthly Interest</b>	<b>\$1,768</b>	<b>\$1,856</b>	<b>\$2,070</b>	<b>\$2,202</b>	<b>\$2,070</b>	<b>\$2,335</b>	<b>\$2,258</b>	<b>\$2,319</b>	<b>\$2,252</b>	<b>\$2,352</b>	<b>\$2,383</b>	<b>\$2,331</b>	<b>\$26,196</b>
42	<b>End-of-Month Tracker Balance</b>	<b>\$669,008</b>	<b>\$722,838</b>	<b>\$778,917</b>	<b>\$818,773</b>	<b>\$844,001</b>	<b>\$850,359</b>	<b>\$842,695</b>	<b>\$839,815</b>	<b>\$848,742</b>	<b>\$857,884</b>	<b>\$871,293</b>	<b>\$876,117</b>	<b>\$876,117</b>

1/ This line also represents the number of customers enrolled in the CARE Rider at the end of the month

STATE OF MINNESOTA     )  
  ) ss  
COUNTY OF ST. LOUIS     )

AFFIDAVIT OF SERVICE VIA  
ELECTRONIC FILING

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Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 13<sup>th</sup> day of March, 2014, she served Minnesota Power's Compliance Report in Docket No. E015/M-11-409 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing.

/s/ Kristie Lindstrom

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Subscribed and sworn to before  
me this 13<sup>th</sup> day of March, 2014.

/s/ Mary K Johnson

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Notary Public - Minnesota  
My Commission Expires Jan. 31, 2016



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St  Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_11-409_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service 1400	No	OFF_SL_11-409_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_11-409_Official
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