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March 31, 2014

VIA ELECTRONIC FILING

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: Minnesota Energy Resources Corporation's Gas Affordability Program 2013
Annual Report

Docket No. G001,011/M-07-1131

Dear Dr. Haar:

Enclosed for filing please find Minnesota Energy Resources Corporation's (MERC's) Gas Affordability Program (GAP) 2013 Annual Report. MERC submits this report pursuant to the Company's Gas Affordability Service Program, MERC Tariff Sheet Nos. 7.09-7.12, and the Commission's Order in this matter dated December 29, 2011.

Please feel free to contact me at (612) 340-2881 if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

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

Beverly Jones Heydinger	Chair
Dan Lipschultz	Commissioner
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Petition of Minnesota
Energy Resources Corporation for Approval of
a Gas Affordability Service Program

Docket No. G-007,011/M-07-1131

ANNUAL REPORT

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this Annual Report in compliance with the Company’s Gas Affordability Service Program (“GAP” or “Program”) (MERC Tariff, Sheet Nos. 7.09 to 7.12 and the Minnesota Public Utilities Commission’s (“Commission’s”) December 29, 2011 Order Accepting Report, Extending Program, and Increasing Gas Affordability Surcharge (“Order”) in this matter. MERC’s GAP became effective on April 1, 2008, and the initial four-year program term ended on December 31, 2011. The Commission authorized MERC to continue its GAP for an additional four years in its Order in this matter dated December 29, 2011. The Commission’s December 29, 2011 Order also authorized MERC to consolidate its GAP programs for MERC-PNG and MERC-NMU effective with rate area consolidation in MERC’s 2010 rate case in Docket No. G-007,011/GR-10-977. This Annual Report covers 2013 – the sixth year of service under the Program. Beginning with this 2013 program year report, MERC will submit a consolidated annual Gas Affordability Program Report.

The Annual Report is structured as follows:

- A. Program Description
- B. Program Credits, Funding, and Administration Costs
- C. Program Participation
- D. Retention, Satisfaction, and Disconnections
- E. Arrears, Customer Payment Frequency, and Collection Activity
- F. Additional Reporting Requirements
- G. New Reporting Requirements

In addition, the GAP Tracker for MERC is included as Attachment A to this Report. Pursuant to the Commission's September 25, 2013 Order Accepting Gas Affordability Program Reports, MERC also submits a summary schedule as Attachment B which includes the following information, as required by the Commission's September 25, 2013 Order:

1. average annual affordability benefit received per customer;
2. average annual arrearage forgiveness benefit received per customer;
3. percentage of Low Income Home Energy Assistance Program (LIHEAP) customers that participated in GAP;
4. disconnection rates for (a) GAP customers, (b) LIHEAP-Non GAP customers, and (c) non-LIHEAP customers (all firm customers including C&I);
5. number of GAP participants enrolled as of year-end;
6. number of GAP participants enrolled and receiving benefits at some time during the year;
7. annual program budget;
8. actual program revenue;
9. actual program cost;
10. GAP tracker balance as of year-end; and
11. GAP rate-affordability surcharge (\$/therm).

A. Program Description

MERC's Gas Affordability Program ("GAP" or "Program") 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"). Qualified customers must: (1) agree to be placed on a levelized payment plan and payment schedule; (2) notify MERC of any changes in address, income level, or household size; and (3) 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 to administer the Program. MERC's GAP pilot was implemented on April 1, 2008, in compliance with Minn. Stat. § 216B.16, subd. 15.

1. Eligibility

The Program is available to any MERC residential customer who meets the qualifications and receives assistance from the Low Income Home Energy Assistance Program ("LIHEAP") during the Program year. Qualified customers must agree to be placed on a levelized payment plan and must also agree to a payment schedule. 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.

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. 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 is 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. Energy assistance is not considered in the calculation of either the affordability bill credit or the forgiveness of pre-program arrears.

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

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 schedule includes both payment of the customer's current month's bill (which reflects one-twelfth of the levelized payment plan), after inclusion of the affordability credit, and payment of 1/48th of the qualified customer's pre-program arrears, less any energy assistance credit applied to the account each month, until the credit balance is exhausted. Customers enrolled in the

Program paid (and had energy assistance credits totaling) \$625,968 towards their energy costs in 2013. The average monthly payment amount for GAP customers in 2013 based on the total amount paid (including energy assistance credits to accounts), divided by the total number of payments) was \$63 per month.

B. Program Credits, Funding, and Administration Costs

Below is a summary of the GAP Tracker activity for MERC in 2013. For additional detail, please see Attachment A.

Summary of 2013 MERC GAP Tracker

ITEM	AMOUNT
Affordability Credits	\$602,149.
Arrearage Forgiveness Credits	\$4,439.
Administrative Fees	\$50,000.
Carry Cost	\$34,271.
Amortization from Pilot Balance	\$178,180.
Total Program Costs	\$869,039.
Collections Through Rates	\$1,329,506.
Amount Over/(Under) Collected in 2013	\$460,467.

1. Program Credits

The total of the Affordability and Arrearage Forgiveness Credits applied to GAP participant accounts during the 2013 Program year was \$606,588.18. The average monthly Affordability credit per customer was \$46.80.

2. Program Funding

In 2013, the Program was funded by a per therm charge of \$0.00441 on all MERC firm system customers. From January 1, 2013, through December 31, 2013, MERC collected \$1,329,505.70 from its firm customers for Program costs. In comparison, MERC collected \$982,456 for Program costs in 2012.

As the level above indicates, 2013 funding increased by about \$347,049— \$329,505 above the \$1 million Program cap. 2013 was the highest funded program year to date, with the funding exceeding the program spending by \$460,466. As a result, MERC has carried unspent dollars forward two years in a row. A major factor in this over-funding scenario was that the monthly program surcharge is assessed on a per-therm basis and natural gas consumption was significantly higher in the winter months, for an extended period of time, this past year and October-December of 2013. Some of the under-spend can be attributed to reduced and eliminated participant arrears (excluding the new enrollees, who had somewhat higher arrearages) and lower percent-of-income credits. This change suggests that MERC has had more households applying and participating from the higher end of the low-income household bracket. MERC is already facing the reality that the over-funding scenario is going to continue into 2014, with natural gas consumption being at an all-time high, due to record low temperatures over an extended period of time.

3. Program Administration Costs

As shown in the tables above, MERC's total Program costs in 2013 was \$869,039, which includes the Affordability and Arrearage Forgiveness credits, administrative costs, and approved Amortization and Carry Cost allowances. At the close of the 2011 program pilot, the Commission authorized MERC to recover the projected tracker balance as of December 31,

2011, amortized over a four-year period plus the \$1 million proposed annual budget through a revised per therm rate of \$0.00441 per therm. The total Program administration costs for 2013 were held at \$50,000, which is 5 percent of total Program costs. The GAP Program tariff limits the amount of administrative costs included in the Tracker (except start-up costs) to 5 percent of total Program costs. MERC has been able to maintain that threshold each program year.

C. Program Participation

As of December 31, 2013, there were 1,080 customers who remained enrolled in the Program during 2013. There were a total of 97 new enrollees in the Program in 2013. Thus, new enrollments increased nine percent in 2013. However, MERC's 2013 participation at year-end decreased approximately nine percent from 2012, not taking the program removals in to account. MERC has made plans to increase the promotions of GAP in 2014 and has already worked with its program partners to begin that effort. MERC has offered program enrollment when customers apply for Cold Weather Rule ("CWR") protection and when customers are in the collection process, especially when customers are facing potential disconnection of service. MERC is also preparing to promote GAP enrollment when customers are going to be removed from the CWR protection, especially when they are carrying significant arrears. MERC is anticipating a spike in accounts with significant arrears coming out of the CWR period, given the high gas consumption this winter and lower CWR monthly customer payments.

D. Retention, Satisfaction, and Disconnections

1. Retention

Ninety-seven new customers enrolled in the Program in 2013. Of all customers participating in the Program in 2013, 59 defaulted from the Program due to non-payment. In comparison, 48 customers defaulted from the Program due to non-payment in 2012.

Additionally, 120 customers were removed from the Program in 2013. Of this group of customers removed, 46 customers were no longer income-eligible for the program (no longer Energy Assistance Program recipients) and had credit balances, 15 customers had large credit balances and agreed to be successfully removed from the program, and 59 customers were removed due to a household move. MERC provides a follow-up letter to all customers who are removed from the Program, due to a household move, alerting them of the need to make payment arrangements for any outstanding account balance and advising them of the option to re-enroll if they are still a MERC customer at a different service address. MERC has not experienced a very good re-enrollment rate with customers who have moved within the MERC service territory. MERC has not tracked the frequency longer term, but does see some re-enrollment of the same customers over a couple program years' time.

In 2013, MERC saw a very consistent GAP retention rate at 95 percent (compared to 97 percent for 2012) with only 5 percent of enrolled customers being removed from the Program due to payment default. This 95 percent retention rate does not take into account the 61 customers who were un-enrolled from the Program in 2013 due to successful completion of the Program (with credit balances on their accounts). Overall, MERC's GAP retention rate continued to follow a very successful trend. MERC plans to un-enroll more successful GAP customers who have not applied for and received Energy Assistance in July 2014, after the Energy Assistance program year has closed.

A consistent number of qualified GAP customers who successfully paid their arrears balance over a two-year period continue to participate in the Program and receive the monthly "percent of income" credit. The arrears forgiveness component is important to the short-term success of the Program, however about 45 percent of the Program funding and 99 percent of the

total monthly credits applied was used for the “percent of income” credits in 2013. The “percent of income” Program component is an indicator of the Program’s longer-term success in that it measures this group’s ability and willingness to consistently make an affordable monthly payment for natural gas service, over an extended period of time.

2. Customer Satisfaction

MERC has never conducted a formal customer satisfaction survey that addresses participation in the Program, but the Salvation Army, and the MERC Call Center, Credit and Collections, and Energy Assistance Teams have continued to receive informal feedback from GAP applicants and participants who have identified the following benefits of the Program:

- Ability to extend arrears payments over 24 months;
- Arrearage forgiveness for half of their arrears at enrollment, which was a greater benefit to new enrollees in 2013;
- Lower and more realistic monthly payment, which allows participants to budget their household income more successfully and increase their ability to pay other important household monthly bills;
- Avoidance of collection activity, up to and including gas service disconnection; and
- Long-term assistance (continuing to receive the monthly percent of income credit on their gas bill), which allows participants to budget limited household income and better withstand smaller financial setbacks.

MERC has not been made aware of any complaints made to the Company, the Commission, the Attorney General’s Office, or the Salvation Army during the 2013 Program year by Program participants.

3. Disconnections

During 2013, 15 GAP customers had gas service disconnected within 2 months of their removal from the Program after missing two consecutive monthly GAP payments. However, 36

gas service disconnections were potentially prevented through enrollment in the Program, which is by far the greatest annual number to date. This higher trend suggests that there were more disconnect notices issued in 2013 and that GAP was proactively offered and accepted as a much better alternative to disconnection of service or facing the challenge of adhering to a more compressed payment arrangement. This also supports the fact that there were more customers enrolled with arrears than the previous few years.

There were approximately 214,612 firm customers on MERC's system during 2013. MERC completed approximately 6,838 firm customer gas service disconnections in 2013 which equates to about 3 percent of all firm customers. GAP customers continued to account for only a very small fraction of one percent of all MERC customers disconnects in 2013, only 15 accounts were disconnected within two months of being removed from the program, due to payment default.

E. Arrears, Customer Payment Frequency, and Collection Activity

1. Arrears

There were 97 customers who newly enrolled in GAP during the 2013 Program year, with total arrears at enrollment of \$22,956. The average arrears amount per enrollment was approximately \$277. This is a fairly significant change from the 2012 and 2011 enrollment periods. The arrears at enrollment figure has been up and down every few years, but overall, most of the enrollees have had arrears at enrollment. In 2013, the arrearages of new enrollees were considerably higher.

The change in the trend from the last few years may be attributed to the fact that more enrollees were in the collection process at the time of enrollment and the fact that residential arrears were up slightly in 2013. MERC also believes that arrears at enrollment in 2013 may

have been up somewhat because energy assistance benefits were lower in the 2012-2013 program year and the fact that 2013 winter bills were higher due to colder weather. Additionally, there were more enrollments toward the end of the heating season, when arrears are typically highest.

2. Effect of Program on Customer Payment Frequency

In 2013, MERC customers enrolled in GAP made 9,928 payments throughout the year totaling \$625,968, which equates to average monthly payments of approximately \$63 per GAP participant. This compares to 10,486 payments made by GAP participants in 2012, totaling \$719,543, which equates to average monthly payments of \$68 per GAP participant and 15,237 payments made by GAP customers in 2011, totaling \$393,460, which equates to average monthly payments of \$26 per GAP participant. MERC provides further discussion in Section F.1. Customer Payment Frequency.

3. Collection Activity

MERC notes that there was some increased cost savings of approximately \$2,700 due to the enrollment of 36 customers who received a disconnect notice prior to Program application and enrollment. This is considering that these customers would have likely had gas service disconnected and does not account for the additional cost of service reconnection. This continues to be a positive trend for customers. In contrast, there were 15 customers who were disconnected within two months of default from the Program. This number is up slightly over 2012; however MERC performed more collection activity in 2013. Each disconnection the Company avoids ensures that the customer remains in service and avoids reconnection fees. MERC also avoids the costs of disconnection notices, employee field visits (which can be many miles between

customers in the MERC service territory), collection staff and call center labor, and reconnection process expenses (reconnection typically follows in less than 72 hours).

Overall, the Program has continued to be very successful in reducing and eliminating arrears of Program participants in 2013; promoting regular monthly payment trends; and allowing customers to make realistic monthly payments for an extended period of time. It has also helped most GAP customers avoid the collection process. MERC continues to monitor the success of customers who have participated in the Program for a number of years to determine whether these customers are able to continue making regular payments with the assistance of the Affordability credit over multiple years of participation. MERC continues to see a dramatic change with this group of customers given their continued successful payment trends. For many customers, reducing their monthly bill by \$30-\$40 each month can be the difference between staying even and falling behind on their gas and other vital household bills. The GAP makes it possible for more households to become self-sufficient.

F. Additional Reporting Requirements

1. Customer Payment Frequency

The following tables compare customer payment frequency of all GAP participants in 2013 to the payment frequency of participating customers in 2012 and 2011. MERC also separated the payment frequency for the 97 new enrollees and for all LIHEAP recipients. GAP customer payments include payments made by customers as well as LIHEAP-energy assistance and other agency assistance payments that have been credited to their account.

GAP Customer Payment Frequency – All Customers Participating			
	MERC-NMU	MERC-PNG	MERC Total
Payments made by GAP customers in 2013			9,928 9 payments per GAP customer
Payments made by GAP customers in 2012	3,710 9 payments per GAP customer	6,776 10 payments per GAP customer	10,486 10 payments per GAP customer
Payments made by GAP customers in 2011	5,280 12 payments per GAP customer	10,047 12 payments per GAP customer	15,327 12 payments per GAP customer

GAP Customer Payment Frequency – New Customers in Program Year			
	MERC-NMU	MERC-PNG	MERC Total
Payments Made in 2013			640 7 payments per GAP customer
Payments Made in 2012	226 8 payments per GAP customer	4548 payments per GAP customer	680 8 payments per GAP customer
Payments Made in 2011	112 7 payments per GAP customer	276 7 payments per GAP customer	388 7 payments per GAP customer

Customer Payment Frequency – LIHEAP Recipients			
	MERC-NMU	MERC-PNG	MERC Total
Payments Made in 2013			120,602 10 payments per LIHEAP recipient
Payments Made in 2012	42,641 10 payments per LIHEAP recipient	83,429 10 payments per LIHEAP recipient	126,070 10 payments per LIHEAP recipient
Payments Made in 2011	48,708 10 payments per LIHEAP recipient	95,107 10 payments per LIHEAP recipient	143,815 10 payments per LIHEAP recipient

MERC makes the following observations with respect to this payment frequency data:

- Overall, the group of all GAP participants' payments has dropped somewhat this past year. MERC still attributes some of this to lower energy assistance credits, but participants' arrears (besides the new enrollees) were also smaller, which reduced the number of payments they had to make, because a credit balance was carried over month to month. Overall, average payments were just a little lower in 2013. There were two other contributing factors that resulted in overall payments being lower in 2013 – the participation number declined, and more of the energy assistance credits were lump sum, so these payments (credits) were only counted once in the total. The GAP program data continues to provide evidence that this group of customers can make their payments if their monthly bill is reasonable or income-adjusted.
- The payment data for the 2013 new GAP enrollees is a little misleading because there were less overall payments and a greater number of enrollments, so the payments per new enrollee were lower. And the greatest number of enrollments was in the second half of 2013, again contributing to the lower payment count. Another factor that contributed to fewer payments for all Energy Assistance participants is that more of the energy assistance payments were paid lump sum in 2013, so there were fewer payments hitting customers' accounts each month. LIHEAP recipients (non-GAP participants) overall continued to pay less in 2013. This can partly be attributed to the fact that the overall number of recipients were down in 2013 as was overall LIHEAP funding. Overall, the LIHEAP customers made fewer payments, as a group, but the number of monthly payments, per participant, remained consistent in 2013.
- It has been difficult to draw conclusions in comparing the monthly payment practices of these three customer groups because of the many uncontrolled factors that contribute to the amounts and payment frequency such as growing credit balances on participants' accounts, LIHEAP funding levels and payment schedules, weather, gas cost, number in household, and fluctuation in household income.

2. Disconnection

Below are the 2013 disconnections by customer category:

Customer Category	Number of Disconnections	Percentage of Customers
2013 Firm Customers (214,612)	6,838	3%
2013 GAP Participants (1,080)	15	Less than 1%
2013 LIHEAP Recipients (Non-GAP Participants) (12,317)	1,866	15%

3. Payment Amount

The table below shows the average annual and monthly bill credit amounts for GAP participants and a comparison of these amounts to the GAP participants' annual and average monthly bill and arrearage amount. This data includes all GAP customers, regardless of arrears balance. In particular, the average arrearage includes the arrears for those customers who have participated in the Program for more than two years and who have successfully eliminated their pre-Program arrears. The Percent of Income credits were down overall in 2013, partly due to the fact that the income of participants at enrollment was higher, resulting in a lower credit each month. There were more arrears among the new enrollees but that does not have as great of an impact on the overall monthly program spending as arrears are spread out over 24 months. Most noteworthy is the drastic change in the overall arrearage of all participants by 2013 program year end. An increased number of customers who were carrying large account credit balances were removed from the Program in 2013 because they were no longer income eligible, they moved out of their current service address, or they agreed to be removed from the Program due to successful participation.

	Average Annual Bill Credit	Monthly Average Bill Credit	Average Annual Bill	Average Monthly Bill	Average Arrearage
MERC	\$516	\$43.	\$288	\$24.	-\$374

4. Customer Payment History

The following chart represents the number of GAP customers making full, partial, and no payments each month in 2011 and 2012 compared to customers making payments each month in the 2013 Program year. MERC notes that all energy assistance and other community assistance payments on GAP customers' accounts have been counted as customer payments. However,

MERC did not record payments received for months that GAP customers had a credit balance (due to lump sum energy assistance payments being posted to their accounts) so that only the monthly payments are reflected.

GAP 2011 - Customer Count						
Month	Full Payment		Partial Payment		No Payment	
	NMU	PNG	NMU	PNG	NMU	PNG
January	497	957	2	4	10	35
February	474	929	3	2	30	54
March	489	939	2	5	14	32
April	442	851	0	0	60	113
May	421	794	1	0	76	159
June	430	815	5	7	16	41
July	432	829	3	4	19	17
August	427	802	4	3	10	39
September	424	792	2	4	14	38
October	418	780	1	1	17	44
November	419	794	2	1	10	21
December	407	765	0	0	18	43

GAP 2012 - Customer Count						
Month	Full Payment		Partial Payment		No Payment	
	NMU	PNG	NMU	PNG	NMU	PNG
January	467	839	84	160	15	20
February	463	836	112	220	10	9
March	243	445	55	134	5	5
April	207	372	59	135	15	4
May	162	315	73	123	10	0
June	164	274	57	104	7	3
July	154	275	43	64	12	5
August	156	293	39	67	11	6
September	153	264	27	49	13	8
October	197	375	33	57	14	9
November	316	571	36	62	12	16
December	359	662	51	80	17	21

GAP 2013 - Customer Count			
Month	Full Payment	Partial Payment	No Payment
January	872	40	239
February	776	92	219
March	786	72	207
April	829	17	165
May	838	25	144
June	728	57	228
July	622	59	401
August	727	71	241
September	741	47	196
October	857	26	202
November	828	16	161
December	646	156	228

The Commission's September 22, 2010, Order requires utilities to report information on customer payment frequency that incorporates partial and late payment information. MERC's customer information system does not have a program that tracks "late payments" so MERC cannot determine this number (without reviewing every account, every month manually) regarding late payments for its GAP customers for 2011, 2012, or 2013. However, the charts above incorporate late payments in the months the payments were received. MERC notes that late payments do not impact a customer's GAP status, as a late payment does not trigger default from the Program. For example, only a customer who failed to make a payment or made a partial payment in one month and then submitted a late payment the next month as well (after the due date) would be defaulted from the Program for failure to make two consecutive monthly payments. GAP customers are not impacted by late payments as long as the previous month's payment was made in full by the current month bill due date.

5. Arrearage Level

The table below shows the change in arrearage level for the average GAP customer compared to the LIHEAP customers that are not enrolled in GAP as of the end of the program years (December 31, 2011, December, 31, 2012, and December 31, 2013) and the average level of arrearage for all of the utility's residential customers as of December 31, 2011, December 31, 2012, and December 31, 2013. The calculations below reflect the average arrears of all GAP customers, as of December 31, 2013, regardless of arrears balance (including credit balances), compared to LIHEAP and all residential customers. At the end of 2013, MERC had only 136 GAP customers who were in arrears a total of \$13,904 (an average of \$102 per customer, of those in arrears). This number is somewhat elevated due to the new enrollment arrears being slightly higher in 2013. However, the majority of the GAP customers continue to carry credit balances (some with significant credit balances), which greatly impacts the comparison of arrears with this group of customers. The average arrears of the LIHEAP recipients actually increased in 2013, most likely because the average LIHEAP benefit was lower in 2013, due to a continued reduction in Federal funding levels. Residential arrears are up slightly over last year as well, but this amount has been fairly consistent the last three years. Another contributing factor is that December arrears are typically a little higher, due to increased early winter consumption and spending priorities with many customers. December is historically a poor month for customer payments and successful collection efforts.

	Average Arrears as of December 31, 2011	Average Arrears as of December 31, 2012	Average Arrears as of December 31, 2013
MERC GAP Customers	-\$714	-\$867	-\$374.
MERC-NMU GAP Customers	-\$762	-\$895	
MERC-PNG GAP Customers	-\$688	-\$853	
LIHEAP Customers	\$120	\$253	\$267
MERC Residential Customers	\$110	\$113	\$119

The 97 new customers who enrolled in the Program for MERC in 2013 had arrears totaling \$22,956. The new enrollee arrears in 2013 were significantly more than the last few program years. The table above reflects a significantly lower average credit balance for all GAP customers at the end of 2013, because almost 100 customers with large credit balances were “successfully” removed from the Program in 2013, as noted in the Section D.1. of this report.

6. Coordination 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 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. MERC and The Salvation Army have coordinated several mailing and calling campaigns to boost GAP enrollment in 2013. This effort was somewhat successful. The Salvation Army works with many of MERC’s low and limited-income customers and uses a very holistic approach in assisting customers as they have done for more than 120 years in the State of

Minnesota. They have access to a variety of support programs internally and they proactively refer customers with a wide array of needs to a number of external programs that assist many families and individuals. Some of the other agencies that The Salvation Army works closely with and makes referrals to are: 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, the State's Weatherization Assistance Program as well as MERC's Conservation Improvement Program weatherization and 4U2 (limited income) programs.

Another program that is available through The Salvation Army is HeatShare, which is a state-wide "Fuel Fund" for customers who are ineligible or over-income 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 staff and is a part of the Minnesota Commerce Department's Policy Advisory Committee for LIHEAP and advocates on behalf of the national program with the National Fuel Funds Network and the American Gas Association every spring in Washington, D.C. The Salvation Army also 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 immediate assistance. The MERC Call Center representatives have continued to increase their referrals to the GAP and Salvation Army's other programs. Call Center representatives encourage customers to act quickly on their need for assistance instead of

waiting until their bill is too big for agencies to help. The Salvation Army has assisted about 144 MERC customers with funds from the HeatShare program in 2013 many of them after determining they were ineligible for GAP. A little more than \$25,000 was provided to this group of customers in 2013, an average of \$174 per customer. The Salvation Army also referred about 225 GAP customers for other assistance, including food vouchers, rental assistance, budget counseling and other Salvation Army services. In 2013, The Salvation Army fielded 1,291 calls to the GAP toll free phone number concerning GAP questions, GAP application, and enrollment questions. MERC continues to support the HeatShare fund through one-time and monthly customer donations and a MERC corporate match of 50 cents on every customer dollar. In 2013, MERC customers donated \$34,030 and MERC provided \$17,015 in matching funds to HeatShare.

MERC has regular contact with all of the energy assistance agencies and many community agencies in its service territory. MERC's Manager – Energy Efficiency & Public Benefits attempts to meet with the energy assistance agencies at least once each year, with many conversations throughout the year. He also meets with Minnesota Department of Commerce staff and Commission staff several times each year to discuss processes, process improvements, issue resolution, assistance coordination, and strengthening the partnerships with all stakeholders. MERC continues to work closely with other Investor Owned Utility staff to share best practices, lessons-learned, partnership opportunities, and aligning program practices.

MERC also has a specially trained group of customer service staff at its Call Center, known as the "Energy Assistance Team" that works with the agencies on a daily basis to better assist customers and expedite the assistance processes. The team works very closely with The

Salvation Army staff to assist in enrolling MERC customers in the GAP and work through any process issues.

In its December 29, 2011 Order Accepting Gas Affordability Program Reports and Requiring Further Action, the Commission required all natural-gas utilities to implement an application-processing goal, assess periodically whether the use of their third-party administrator is the most effective and efficient arrangement, require the third-party administrator to make the GAP application available on their website, provide reminders to GAP participants when payments are missed, and cross-promote GAP with other programs. These requirements are addressed below.

7. Application Processing Goal

MERC has required its GAP administrator, The Salvation Army, to process all completed GAP applications within 5 business days of receipt. If this deadline cannot be met, due to circumstances beyond their control, the GAP Program Manager must be notified so the issue can be resolved. This has only happened on a few occasions, in the past few years due to incorrect account or household information and was resolved quickly. MERC reports that in program year 2013 all applications were processed within 5 business days, with the far majority being processed the day following receipt.

8. Third-Party Administrator Evaluation

MERC meets with and reviews the GAP program administration performance with The Salvation Army on a quarterly basis. At that time, MERC and The Salvation Army review monthly enrollments, upcoming promotions, the need for additional targeted promotions (mailings, phone calls, etc.) as well as any barriers to increasing program participation and the YTD program budget. The Salvation Army has consistently scored very high in MERC's

evaluation of their performance. MERC had originally explored the option of managing the GAP program internally, but it would require adding another full-time employee, which would not be feasible compared to the current administrative cost of The Salvation Army contract. MERC reviewed the potential to manage the program internally in 2013, when some organizational changes were being considered for 2014, but determined it would not be cost-effective for MERC to manage the day-to-day promotion, enrollment, and assistance process internally. Additionally, the Salvation Army has a significant advantage from a referral standpoint and providing a holistic approach to improving our customers' progress toward self-sufficiency.

9. GAP Application Availability

The Salvation Army, MERC's GAP Program Administrator, is not able to make the GAP program application available on their website due to internal policy on operational/marketing restrictions. However, The Salvation Army goes "above and beyond" in promoting the program in many ways including making the GAP application available to their caseworkers, HeatShare and Outreach staff (which generate many internal referrals), and frequent promotion through their interaction with other community agencies/programs. They also make this Program application available at any resource fairs they participate in around the State. MERC also has GAP Program enrollment information and the application available on its website, including a toll-free number for The Salvation Army, for exclusive GAP Program use. The MERC Call Center also mails GAP applications to customers who inquire or are informed of the program when they are assisting customers with their bills and payment arrangements.

10. Reminder After Missed Payment

MERC sends a letter out to all GAP participants if their payment is not received after five days of the due date. The letter reminds them of their GAP payment obligation and that it is not

too late to make the payment. However, if the missed payment and the next payment due is not received by the following due date, the customer will default from the program. In 2013, only 59 GAP participants defaulted from the MERC Program do to non-payment, maintaining an excellent program retention rate of 95%.

11. Cross Promotion of GAP

MERC promotes the GAP program in a variety of ways throughout the program year: on its website, through quarterly bill inserts and Customer Connection (insert) articles, through Call Center contacts, collection contacts and campaigns (including when customers are in the gas service disconnection process), through promotion/communication to and through the Energy Assistance agencies and through targeted mailings to Energy Assistance recipients who have not yet participated. The Salvation Army promotes the program through their other social services programs and through their casework.

G. New Reporting Requirements

In its September 25, 2013 Order Accepting Gas Affordability Program Reports, the Commission required that MERC submit a summary schedule covering the following information:

1. average annual affordability benefit received per customer;
2. average annual arrearage forgiveness benefit received per customer;
3. percentage of Low Income Home Energy Assistance Program (LIHEAP) customers that participated in GAP;
4. disconnection rates for (a) GAP customers, (b) LIHEAP-Non GAP customers, and (c) non-LIHEAP customers (all firm customers including C&I);
5. number of GAP participants enrolled as of year-end;
6. number of GAP participants enrolled and receiving benefits at some time during the year;
7. annual program budget;

8. actual program revenue;
9. actual program cost;
10. GAP tracker balance as of year-end; and
11. GAP rate-affordability surcharge (\$/therm).

This information is included in the table below and attached as Attachment B.

Average Annual Affordability Benefit per GAP Participant	\$479
Average Annual Arrearage Forgiveness Benefit per GAP Participant	\$37
Percentage of MERC LIHEAP Customers that Participated in GAP	8%
Disconnection Rates	
GAP Customers	less than 1% (15)
LIHEAP Customers	less than 15% (1,866)
All Firm Customers	3% (6,838)
Number of GAP Participants Enrolled as of Year End 2013	1,080
Number of GAP Participants Enrolled and Receiving Benefits at Some Time During 2013	1,248
Annual Program Budget	\$1,000,000
Actual Program Revenue	\$1,329,506
Actual Program Cost	\$869,039
GAP Tracker Balance as of Year-End 2013	\$540,965.04
GAP Rate-Affordability Surcharge (\$/therm)	\$0.00441/therm

CONCLUSION

MERC respectfully requests that Commission accept MERC's Annual Report as in compliance with MERC's GAP tariff and the Commission's Orders in this docket. MERC believes the outcomes for 2013 were very successful, with overall participation being fairly consistent with 2012 Program performance. MERC has helped its GAP customers successfully eliminate their pre-Program arrears through participation in the Program, and was able to un-enroll another 51 successful participants in 2013. These customers were able to pay off their arrears and establish credit balances on their accounts, giving them a good start to move beyond

the Program toward self-sufficiency. MERC hopes to un-enroll many more successful participants in 2014, which will allow for increased enrollment by new applicants. MERC looks forward to another successful Program year in 2014.

DATED: March 31, 2014

Respectfully submitted,

DORSEY & WHITNEY LLP

/s/ Michael J. Ahern

Michael J. Ahern
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Attorney for Minnesota Energy Resources
Corporation

**Minnesota Energy Resources - Total Company
Gas Affordability Program Tracker**

	<i>RT 078 and 179</i>	<i>RT 825</i>	<i>RT 826</i>	<i>RT 044</i>	<i>RT 012</i>	<i>RT 559</i>	
			<u>Dollars Paid for</u>				
	<u>Funding (from</u>	<u>Dollars Paid for</u>	<u>Arrearage</u>	<u>Admin Fee to</u>	<u>12/31/11 Balance</u>	<u>Carry Cost</u>	<u>Ending Balance</u>
	<u>bills)</u>	<u>Affordability</u>	<u>Forgiveness</u>	<u>Salvation Army</u>	<u>Amortization</u>		
Jan-13	80,498.61	209,972.33	52,273.11	378.05	-	14,848.33	219,583.06
Feb-13	219,583.06	217,956.08	51,825.00	403.77	-	14,848.33	367,170.47
Mar-13	367,170.47	177,052.75	51,660.85	361.18	-	14,848.33	474,158.09
Apr-13	474,158.09	150,713.29	51,440.25	397.85	12,500.00	14,848.33	542,586.99
May-13	542,586.99	112,825.93	50,902.72	360.99	-	14,848.33	586,299.74
Jun-13	586,299.74	50,468.82	50,273.22	406.48	-	14,848.33	568,336.20
Jul-13	568,336.20	40,132.92	49,792.94	260.21	-	14,848.33	540,760.12
Aug-13	540,760.12	23,187.84	49,544.13	514.70	12,500.00	14,848.33	483,830.09
Sep-13	483,830.09	31,555.45	49,277.57	267.40	-	14,848.33	448,378.34
Oct-13	448,378.34	37,429.85	48,652.05	371.69	12,500.00	14,848.33	406,919.03
Nov-13	406,919.03	95,167.12	48,466.36	354.38	-	14,848.33	435,996.80
Dec-13	435,996.80	183,043.32	48,041.03	362.25	12,500.00	14,848.33	540,965.04
	<u>1,329,505.70</u>	<u>602,149.23</u>	<u>4,438.95</u>	<u>50,000.00</u>	<u>178,179.96</u>	<u>34,271.13</u>	

12/31/11 Balance moved to a Regulatory Asset Account. Approved to amortize over 4 years

Carry Cost charge set at Rate of Return of 7.98% as approved by the Commission in Docket No. G007,011/M-07-1131

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GAP Rate-Affordability Surcharge (\$/therm)	\$0.00441/therm

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 31st day of March, 2014, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the attached Gas Affordability Program Annual Report 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.

/s/ Kristin M. Stastny
Kristin M. Stastny

Subscribed and sworn to before me
This 31st Day of March, 2014.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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