Minnesota Energy Resources Corporation
2665 145th Street West
Box 455
Rosemount, MN 55068-0455

June 1, 2015

VIA ELECTRONIC FILING

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

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

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC") is pleased to submit this evaluation of its pilot Gas Affordability Program ("GAP" or "Program"). MERC's Program became effective on April 1, 2008, and was extended through December 31, 2015 by the Minnesota Public Utilities Commission's ("Commission") Order Accepting Report, Extending Program, and Increasing Gas Affordability Surcharge dated December 29, 2011. That Order required that MERC submit an evaluation by May 31, 2015 and MERC submits this filing in compliance with that requirement.

This evaluation includes background information, a description of the Program, information on Program participation, an evaluation of the Program from both statutory and cost-effectiveness perspectives, and discussion of other relevant factors, including potential societal benefits. MERC is also proposing a four-year extension, to reduce its annual GAP budget from $1 million to $750,000, and to modify its GAP surcharge from $0.00441 to $0.00158, effective January 1, 2016. In accordance with the Commission's November 26, 2014 Order Accepting Gas Affordability Program Annual Reports, MERC submits this evaluation report as a new miscellaneous filing.

If you have any questions, please contact me at 920-433-5763.

Sincerely,

Jim Phillippo
Program Manager Energy Efficiency/Public Benefits
Minnesota Energy Resources Corporation

cc: Service List

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2015 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years

Docket No. G011/M-15-___

PETITION FOR APPROVAL

INTRODUCTION

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this Petition pursuant to the Minnesota Public Utilities Commission's ("Commission") December 29, 2011, ORDER ACCEPTING REPORT, EXTENDING PROGRAM, AND INCREASING GAS AFFORDABILITY SURCHARGE in Docket No. G-007,011/M-07-1131, which required that MERC submit an evaluation of its Gas Affordability Program ("GAP" or "Program") by May 31, 2015. In this filing, MERC submits its Evaluation Report in compliance with the Commission Order. MERC is also seeking Commission approval to extend its GAP for an additional four years, to reduce its annual GAP budget from $1 million to $750,000 and to modify its GAP surcharge from $0.00441 to $0.00158, effective January 1, 2016.

I. **Summary of Filing**

A one-paragraph summary of the filing accompanies this petition pursuant to Minn. R. 7829.1300, subp. 1.

II. Service on Other Parties

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

III. General Filing Information

Pursuant to Minn. R. 7825.3200, 7825.3500, and 7829.1300, MERC provides the following information:

A. Name, Address, and Telephone Number of Utility

Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8901

B. Name, Address, and Telephone Number of Utility Attorney

Michael J. Ahern
Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402-1498
(612) 340-2881

C. Date of Filing and Proposed Effective Date

MERC is submitting this filing on June 1, 2015. MERC proposes revised proposed GAP surcharge be effective January 1, 2016.

D. Statute Controlling Schedule for Processing the Filing

Minn. Stat. § 216B.16, subd. 1, allows a utility to place a rate change into effect upon 60-days notice to the Commission, unless the Commission otherwise orders. Minn. Stat. § 216B.16, subd. 6b-6c further allows public utilities to file rate schedules providing for annual recovery of actual conservation costs and approved incentives. Under Minn. R. 7829.0100, subp. 11, this Petition constitutes a miscellaneous filing because no determination of the Company's general revenue requirement is necessary. Minn. R. 7829.1400, subp. 1, permits initial comments on miscellaneous filings to be made within 30 days of filing with reply comments 10 days thereafter.

E. Utility Employee Responsible for the Filing

Jim Phillippo
Program Manager Energy Efficiency Programs

IV. Description and Purpose of Filing

A. Background

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

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

The Commission's December 29, 2011 Order authorized MERC to continue its pilot gas affordability program for an additional four years (until December 31, 2015) with an evaluation to be submitted by May 31, 2015 and annual reports by March 31 of each year. Since the extension of MERC's GAP, MERC has submitted the annual reports required under the Company's GAP tariff to the Commission on March 29, 2012; March 29, 2013; March 31, 2014; and March 31, 2015.

Effective May 1, 2015, the natural gas customers of Interstate Power and Light Company were transitioned to MERC's rates and tariffs, including MERC's GAP. MERC is currently working with the Salvation Army to determine eligibility of IPL customers who had been enrolled in IPL's Program. Collection holds were placed on those accounts to allow time for application processing. MERC and IPL are submitting a separate evaluation report for IPL's GAP at the same time of this filing; however, transitioned IPL customers are being transitioned to MERC's GAP and IPL's program will not be continued.

The Company now submits this GAP evaluation report ("Report") in compliance with the Commission's Order. The Report includes background information, a description of the Program, information on Program participation, an evaluation of the Program from both statutory and cost-effectiveness perspectives during the period since the last evaluation report was submitted through the end of 2014, and discussion of other relevant issues, as well as the following Evaluation Attachments:

Attachment A Summary of GAP Annual Report Statistics

Attachment B Estimated Savings From Avoided Write-Offs

Attachment C Projected Tracker Account Balance

Attachment D Calculation of Revised Per Therm Rate

Attachment E Proposed Clean and Redlined Tariff Sheets

B. Description of Gas Affordability Program

MERC's GAP is designed to lower the percentage of income that low-income households devote to energy bills, to increase customer payments, and to reduce the utility's cost associated with the collection of unpaid bills. The Program assists low income customers by: (1) creating a levelized payment plan; (2) tying customer payment amounts to reported income levels ("Affordability component"); (3) applying payments to reduce both current and arrears balances; and (4) providing credits to retire pre-program arrears ("Arrearage Forgiveness component"). Qualified customers must agree to be placed on a levelized payment plan and payment schedule, are required to notify MERC of any changes in address, income level, or household size, and must maintain a consistent payment schedule. MERC will maintain service and suspend collection activities to qualified customers, regardless of arrears balances, if the customer stays current with the payment schedule and otherwise maintains eligibility. The Company partners with The Salvation Army on administration of the Program. MERC's GAP was implemented on April 1, 2008, in compliance with Minn. Stat. § 216B.16, subd. 15. The Program is funded through a per therm charge of $0.00441 per therm for all firm service customers receiving service under rate schedules GS-NNG General Service, GS-Albert Lea General Service, and GS-Consolidated General Service.

1. Eligibility

The Program is available to any MERC residential customer who meets the qualifications and receives assistance from LIHEAP during the Program year. Qualified customers must 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 as provided by the qualified customer to MERC. Once enrolled in the Program, any primary heat energy assistance sums are applied to GAP customers' current bills (in accordance with LIHEAP program guidelines) and the balance applied to future bills.

The Arrearage Forgiveness component is a matching credit that is applied to a qualified customer's account each month after receipt of the customer's scheduled arrears payment. The application of this monthly credit and customer payment retires pre-program arrears over a period of up to 24 months. 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.

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 a portion 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.

C. Program Participation

The MERC GAP Program became effective on April 1, 2008. MERC energy assistance recipients are targeted for a direct mail campaign, informing them of their potential eligibility for the program as well as the program benefits. The Salvation Army manages the Program enrollment process. Since the Program's extension, Program enrollments, by year are as follows:

	2011	2012	2013	2014	Average 2011-2014 (Combined)
Enrolled at year-end	MERC-NMU[1] = 425 MERC-PNG = 808	MERC-NMU = 414 MERC-PNG = 737	1,080	1,750	1304
Removed – customer request	NMU – 20 PNG - 54	NMU – 15 PNG - 42	74	63	67
Non-pay default	NMU – 12 PNG - 48	NMU – 18 PNG - 30	59	161	82
Number of participants that received a credit	1,367	1,256	1,248	2,060	1,483
Default rate, delinquency[2]	NMU - 3% PNG - 6%	NMU - 4% PNG - 4%	5%	9%	6%

[1] The Commission's December 29, 2011 Order authorized MERC to consolidate the Company's 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.

[2] The Default rate is calculated as the Non-payment Default divided by the total participants at year-end.

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

	2011	2012	2013	2014	Average 2011-2014 (Combined)
Affordability Credits	NMU = $267,946 PNG = $470,538	NMU = $239,558 PNG = $402,830	$602,149	$628,002	$652,756
Arrearage Forgiveness Credits	NMU = $2,237 PNG = $3,081	NMU = $1,894 PNG = $2,603	$4,439	$15,062	$7,329
Total Credits	NMU = $270,183 PNG = $473,619	NMU = $241,452 PNG = $405,433	$606,588	$643,064	$660,085
Arrearage Credits/ Total Credits	NMU = Less than 1% PNG = Less than 1%	NMU = Less than 1% PNG = Less than 1%	Less than 1%	2%	1%

D. Program Evaluation

The Company's GAP tariff states, "The Program shall be evaluated before the end of the four year term and may be modified based on annual reports and on a financial evaluation."[3] The Company has undertaken this evaluation for the purpose of assessing the operation and impact of the Program in order to provide information to support a decision to continue, modify, or discontinue the Program.

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

The enabling statute states:

> (b) Any affordability program the commission orders a utility to implement must:
> (1) lower the percentage of income that participating low-income households devote to energy bills;
> (2) increase participating customer payments over time by increasing the frequency of payments;
> (3) decrease or eliminate participating customer arrears;

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

> (4) lower the utility costs associated with customer account collection activities; and
> (5) coordinate the program with other available low-income bill payment assistance and conservation resources.[4]

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

The statute also states:

> (c) In ordering affordability programs, the commission may require public utilities to file program evaluations that measure the effect of the affordability program on:
> (1) the percentage of income that participating households devote to energy bills;
> (2) service disconnections; and
> (3) frequency of customer payments, utility collection costs, arrearages, and bad debt.[5]

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

The Company's tariff states, in part:

> The financial evaluation will include a discounted cash flow of the Program's cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program.[6]

Other operational factors may relate to efficient delivery of the Program and may also affect administration cost or participation rates.

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

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

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

Societal impacts, while difficult to quantify, may also be considered as part of the Program evaluation. A discussion of these impacts may better inform policy decisions about future programs.

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

1. Evaluation Based on Statutory Criteria

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

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

By design, the Program reduces the natural gas bill to participants from what the bill would have been without the Program.[7] The amount of this reduction is equal to the total monthly affordability and arrearage forgiveness credits provided to participants. For this reason, the Company believes that the Program reduced the amounts billed for natural gas service to participating customers. While it is not possible to know definitively whether the Program lowered the percentage of income participants devote to energy bills due to a number of variables, including, for example, the impact of other energy bills (i.e., electricity) and any changes in participants' income, assuming these other factors remained constant, MERC's GAP did satisfy this statutory requirement.

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

MERC's analysis around customer payment frequency took into account any energy assistance payments that were credited to the customer's bill during the month. The Company considered any energy assistance credits that credited the monthly amount due as a customer payment, as energy assistance credits are always first applied to any current amount due and any future billings. Many of MERC's lowest income customers, who have also had the lowest household incomes, often carry very significant credit balances because their energy assistance credits can be quite large. As shown in the following tables, MERC compared customer payment frequency of GAP participants between 2011 and 2014. MERC also separated out the payment frequency between 2011 and 2014 for the new enrollees in the Program each year.

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

GAP Customer Payment Frequency – All Customers Participating			
	MERC-NMU	**MERC-PNG**	**MERC Total**
Payments made by GAP customers in 2014			14,922 payments 7 per GAP customer
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 2014			9,697 10 payments per GAP customer
Payments Made in 2013			640 7 payments per GAP customer
Payments Made in 2012	226 8 payments per GAP customer	454 8 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 2014			138,264 10 payments per LIHEAP recipient
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

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

c. Decrease or eliminate participating customer arrears

The table below shows the change in arrearage level for the average GAP customer compared to LIHEAP customers (who were not enrolled in GAP) at the end of each of the program years (December 31, 2011; December, 31, 2012; December 31, 2013; and December 31, 2014). It further compares the average level of arrearage for all of the utility's residential customers as of December 31, 2011; December, 31, 2012; December 31, 2013; and December 31, 2014.

At the end of 2014, 436 GAP customers were in arrears (a total of $43,863 in arrears). Therefore, of customers who had an arrears balance, the average arrears balance was approximately $100 per customer. In 2013, MERC had only 136 GAP customers with arrears balances, which totaled $13,904. The average arrears balance for these customers was $102 per customer. The total arrears for new enrollees increased in 2014. This increase was due to the high number of newly enrolled customers who entered the Program with arrears balances. Of the 980 new customers who enrolled in the Program in 2014, 364 customers had arrears. These customers' arrears balances totaled $35,277 at the time of enrollment. The average arrears balances of customers entering the Program decreased between 2013 and 2014. The majority of the GAP customers were carrying typical, credit balances, for that time of the year, following the application of substantial energy assistance benefits.

	Average Arrears as of December 31, 2011	**Average Arrears as of December 31, 2012**	**Average Arrears as of December 31, 2013**	**Average Arrears as of December 31, 2014**
MERC GAP Customers	-$714	-$867	-$374	-$552
MERC-NMU GAP Customers	-$762	-$895		
MERC-PNG GAP Customers	-$688	-$853		
LIHEAP Customers	$120	$253	$267	$209
MERC Residential Customers	$110	$113	$119	$146
MERC-NMU Residential Customers	$142	$146		
MERC-PNG Residential Customers	$101	$105		

The average credit balance for all GAP customers, at the end of 2014 (as reflected above) was quite substantial because the majority of the enrolled customers no longer had any arrears. These customers continue to be eligible and indicate that they want to continue participating in the Program. Because these customers have large credit balances, they decrease GAP participants' average account balance.

Overall, the Program has been very successful reducing and eliminating the arrears of a great percentage of Program participants. Many of the participants currently have sizeable account credits, but these credits will help ease their energy burden over a longer period of time. MERC strongly believes that with a growing percentage of these customers with the lowest incomes and the highest consumption, the increasing energy burden on these households must be addressed, longer-term, or many will again have significant arrears in a few years if they do not receive significant financial assistance.

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

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

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

Customer Category	Number of Disconnections	Percentage of Firm Customers	Percentage of Firm Disconnects
2014 Firm Customers (218,015)	**6,925**	**3%**	**100%**
2013 Firm Customers (214,612)	**6,838**	**3%**	**100%**
2012 Firm Customers (210,221)	**6,169**	**3%**	**100%**
NMU Customers	1,764	Less than 1%	29%
PNG Customers	4,405	2%	71%
2011 Firm Customers (209,749)	**10,089**	**5%**	**100%**
NMU Customers	2,285	1%	23%
PNG Customers	7,804	4%	87%
2014 LIHEAP Recipients (Non-GAP Participants)	**1,713**	**Less than 1%**	**25%**
2013 LIHEAP Recipients (Non-GAP Participants)	**1,866**	**Less than 1%**	**27%**
2012 LIHEAP Recipients (Non-GAP Participants)	**1,493**	**Less than 1%**	**24%**
NMU Recipients	564	Less than 1%	9%
PNG Recipients	929	Less than 1%	15%
2011 LIHEAP Recipients (Non-GAP Participants)	**2,447**	**1%**	**24%**
NMU Recipients	798	Less than 1%	8%
PNG Recipients	1,649	Less than 1%	16%
2014 GAP Participants	**39**	**Less than 1%**	**Less than 1%**
2013 GAP Participants	**15**	**Less than 1%**	**Less than 1%**
2012 GAP Participants	**4**	**Less than 1%**	**Less than 1%**
NMU Participants	0	0%	0%
PNG Participants	4	Less than 1%	Less than 1%
2011 GAP Participants	**12**	**Less than 1%**	**Less than 1%**
NMU Participants	4	Less than 1%	Less than 1%
PNG Participants	8	Less than 1%	Less than 1%

Each disconnection the Company avoids also generates additional savings, associated with disconnection notices, reconnection fees (many are reconnected within 72 hours, which generates more field visits and considerable travel for MERC personnel) and more often than not, multiple contacts and actions with community agencies. In 2014, 93 gas-service disconnections were prevented through enrollment in the Program, which is significantly higher than any previous year. Overall disconnections decreased over the last four years. Nevertheless, MERC estimates savings related to stopping the disconnect process on accounts that have enrolled in GAP, after the disconnect notice is sent and before the physical disconnection at the meter, as shown in the table below.

Program Year	**# of Disconnects Prevented**	**Savings**[8]
2014	93	$14,415
2013	36	$5,580
2012	5	$775
2011	28	$4,340
Totals	162	$25,110

The Program has also created savings through fewer write-offs for MERC's GAP customers. Attachment B shows that MERC estimates approximately $1.2 million in savings from avoided write-offs due to the Program from 2011 to December 31, 2014.[9]

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

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

MERC has continued to build its strong partnership with the Salvation Army, which administers the Company's GAP and provides some basic but important additional services to MERC customers in need. MERC Call Center representatives continue to refer customers who have received Minnesota Energy Assistance benefits to the Salvation Army as appropriate for potential program enrollment. MERC and the Salvation Army coordinated several mailing and calling campaigns in 2014, which significantly increased GAP enrollment. The Salvation Army has access to a variety of internal and external programs to which it refers individuals. The external agencies

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[8] As discussed in more detail in Section E below, MERC estimates savings of $75 for each disconnection avoided, $75 for each reconnection avoided, and $5 for the mailing and required collection calls for each disconnection.

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

include: Second Harvest, Energy Assistance, County Emergency Assistance, Medical Clinics, the Social Security Administration, the Veterans Administration, Legal Services, Emergency Disaster Services, the Department of Housing and Urban Development, the Federal Emergency Management Agency, St. Vincent de Paul, the Minnesota Housing Authority, and the State's Weatherization Assistance Program. The Salvation Army also refers individuals to 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 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 very connected with the State of Minnesota programs and staff and is a part of the Minnesota Department of Commerce's LIHEAP Policy Advisory Committee and advocates on behalf of the national program. Additionally, the Salvation Army offers food assistance, rent assistance, medical clinics, seasonal and disaster assistance, and many other services for those in need.

MERC has continued to work very closely with the Salvation Army to assure that customers in need receive immediate assistance. The MERC Call Center representatives have continued to increase their referrals to GAP and the Salvation Army's other energy-assistance programs. Through additional training, support, and coaching, MERC's Call Center representatives have become more proactive in encouraging customers to act quickly on their need for assistance instead of waiting until their bill is too big for agencies to help and they are already in the collection process. The Salvation Army assisted about 125 MERC customers with funds from the HeatShare program in 2014, often after determining they were ineligible for GAP. A little more than $20,000 was provided to this group of customers in 2014, an average of $160 per customer. The Salvation Army also referred about 350 GAP customers to other assistance programs, including food vouchers, rental assistance, budget counseling, and other Salvation Army services. In 2013, the Salvation Army fielded 2,970 calls for general, application, and enrollment questions. MERC continues to support the HeatShare fund by donating 50 cents for every dollar customers donate. In 2014, MERC customers donated $34,907, and MERC provided $17,453 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 of Energy Efficiency & Public Benefits, James Phillippo, attempts to communicate with the energy assistance agencies at least a few times each year, having regular contact with many of them throughout the year. Mr. Phillippo also meets with Department and Commission staff several times each year to discuss process improvements, issue resolution, assistance coordination, and strengthening the partnerships with all stakeholders. MERC also continues to work closely with other Investor-Owned Utility staff to share best practices, discuss partnership opportunities, and to align program practices where appropriate.

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 GAP.

Over the last four years, MERC has tried to promote Program enrollment in a variety of ways. In 2014, MERC undertook significant Program promotion following the Cold Weather Rule period when many LIHEAP recipients had significant account balances due to a long, cold winter. MERC sent a GAP promotional letter to all customers enrolled in the Cold Weather Rule a few weeks before the protection period ended, did a bill insert about GAP, and conducted additional training with the call center representatives and communicated the Program specifics and eligibility criteria to all the energy assistance offices. The enrollments coming out of the Cold Weather Rule were the highest since the Program's launch in the spring of 2008. MERC saw several enrollment spikes in the 2014 program year and the retention rate remained steady.

In summary, as indicated in the detail above, the Company believes GAP satisfied each of the five statutory requirements.

2. Evaluation of Other Issues and Challenges

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

a. GAP Impact on LIHEAP (Energy Assistance) Grants

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

State of Minnesota - LIHEAP Allocations

Program Year	Minnesota LIHEAP Funding
2014-2015	$113,197,915
2013-2014	$114,540,746
2012-2013	$109,335,012
2011-2012	$117,094,007

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

Emergency energy assistance benefits provide additional assistance to customers who have higher arrears, are making regular payments, but cannot pay their entire monthly bill so may be falling further behind and are potentially facing service disconnection. There is no doubt that the emergency energy assistance benefits of GAP participants have been impacted due to the GAP benefits, because enrollment in GAP provides protection against any collection activity, so households avoid crisis scenarios. MERC does not feel, however, that it can make a fair and accurate analysis of the overall reduction of emergency benefits to GAP customers. There are too many variables that impact a customer's ability to qualify for emergency benefits and the actual amount of potential assistance including the amount of available funding, the number of customers that apply for emergency assistance, and how the county agency determines need and pays benefits. Participation varies year-to-year, so the average benefit paid per household is estimated from previous participation. A colder than normal winter and higher application trends impact the number of customers the Program serves.

As the chart below indicates, the amount of the total LIHEAP grants to MERC customers fluctuated over the last four years, as did the number of recipients. As the data below indicates, applications have been down, to date, for the 2014-2015 Program year. This reduction is likely attributable to the fact that the 2014-2015 winter was milder than the last few winters. Nevertheless, the State of Minnesota ran out of LIHEAP dollars before the program year ended, which has not occurred in many years.

MERC Recipients of LIHEAP Grants

Program Year	# of Recipients	Grant Totals
2014-2015	11,981	*$4,592,321
2013-2014	13,204	$4,941,767
2012-2013	12,717	$4,558,956
2011-2012	13,610	$4,023,934

*Received through 04/30/15

b. Spending Challenges

MERC has now carried unspent dollars forward three years in a row. A major factor in this over-funding scenario continued to be the fact that the monthly program surcharge is assessed on a per-therm basis and natural gas consumption was still significantly higher during the months of January-March 2014 than historic averages. Some of the under-spending continues to be attributed to reduced and eliminated participant arrears among the longer-term participants. Also, a fairly high percentage of the new enrollees had lower arrearages and lower percent-of-income credits. This trend suggests that more households from the higher end of the low-income household bracket are participating. These customers tend to carry lower arrearages. MERC is already facing the reality that the over-funding scenario is going to continue into 2015, with natural gas consumption being only slightly lower in the winter of 2015. However, MERC expects that more arrears forgiveness spending will occur in 2015, as it plans to promote the Program more to customers with the highest arrears, coming out of the CWR period.

Not only did new enrollees have lower arrears, but there was an increase in customers with no arrears at enrollment. Only about one quarter of the current enrollees have arrears and are participating in the Arrears Forgiveness component. Also, 2014 saw a dramatic increase in new applicants that could not be enrolled because they did not qualify for the Affordability Credit—their monthly income was disproportionate to their annual consumption.

MERC – GAP Recipients of LIHEAP Grants

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

* Received through 5/31/15

E. Cost Effectiveness Analysis

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

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

Pursuant to this provision, the Company performed a cost-effectiveness analysis from a ratepayer perspective for the period from 2011 through 2014 and found that there was a net cost to ratepayers of approximately $1.6 million. On an annual basis, this is about $394,568. The calculation of savings from avoided write-offs, service disconnections and reconnections, and collections activities are summarized below.

	2011	2012	2013	2014	Total 2011-2014	2011-2014 Average
Program Costs[10]	$793,802	$696,884	$656,588	$693,065	$2,840,339	$710,085
Savings From Avoided Write-Offs	($305,634)	($296,798)	($238,395)	($396,133)	($1,236,960)	($309,240)
Savings From Avoided Disconnect, Reconnects, and Collections	($4,340)	($775)	($5,580)	($14,415)	($25,110)	($6,278)
Cost/ (Benefit)	$483,828	$399,312	$412,614	$282,517	$1,578,271	$394,568

The Company considered Program costs, including affordability and arrearage credits, and administration and start-up costs included in the GAP trackers. The total cost of affordability and arrearage credits provided to GAP participants was about $2.6 million over the entire period or about $660,085 per year.

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

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

- MERC assumed that all service disconnections that were prevented through enrollment in the Program would have also involved a service reconnection within 72 hours, as is the case with most low-income customer disconnections.

- MERC estimated the cost of each disconnection/reconnection to be $150.

[10] “Program Costs” exclude carrying charges and the annual amortization of GAP tracker balance amount.

- MERC estimated the cost of preparing and mailing disconnect notices and the required collection calls to be $5 per customer.

As shown in the table above, the total net cost to ratepayers over the previous four years to date was approximately $1.6 million or about $394,568 per year.

F. Societal Benefits

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

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

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

- *Growing the "Safety Net"* – Over the evaluation period, GAP funding has helped meet the shortfall for customers receiving LIHEAP benefits and reduced the number of customers in crisis, reducing the immediate need for emergency energy assistance benefits. In 2014, the State of Minnesota's program served roughly 135,000 households; however, an estimated 639,000 households are eligible households within the State, up about 50,000 from 2010.[11]

- *New Program Development to Help Off-set the Growing Energy Burden* – The concept of "low-income energy burden" has been a topic of discussion in advocacy circles for a number of years. In recent years, national data continued to suggest that there is a growing disparity in the energy burden between low-income households and the average residential customer (about 2.8% of household income). This disparity increases the need for energy assistance programs and funds. A growing number of states have proposed and enacted ratepayer-funded programs to ease the energy burden of low- and limited-income households. These programs involve discounted rates, billing credits, and fee exemptions. There has been much research establishing the reality that LIHEAP program funding has only provided assistance to a fraction of all eligible households. And the heavy on-set of new households participating compared to the relatively limited funding increases resulted in a lower assistance benefit for all recipients. In summary, there is a demand for much greater supplemental assistance beyond what the LIHEAP program can provide. One ratepayer funded study from 2007 references several energy burden theories that have provided some framework for discussion around the root of this dilemma, as shown in the table below:

Defining Affordable and High Residential Energy Burden

Moderate Shelter Burden = 30% of income
Median residential energy costs for low-income households = 20% of shelter costs
Affordable residential energy burden = 30% * 20% = **6 % of income**[12]

Severe Shelter Burden = 50% of income
Median residential energy costs for low-income households = 22% of shelter costs
High residential energy burden = 50% * 22% = **11% of income**[13]

[11] National Energy Assistance Director's Association data.

[12] National Study of Ratepayer-Funded Low-Income Energy Programs, Roger Colton of Fisher, Sheehan and Colton (2007). MERC is not aware of any updates to this data since the time this study was conducted.

[13] National Study of Ratepayer-Funded Low-Income Energy Programs, APPRISE (2007). MERC is not aware of any updates to this data since the time this study was conducted.

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

G. 2015 Program

As noted above, the current GAP will end on December 31, 2015 if the Commission does not take action to extend the Program before the end of 2015.

H. Proposed Program Modifications

After review of MERC’s 2014 GAP Annual Report and MERC’s GAP Program Evaluation, if the Commission decides that GAP was successful in satisfying each of the five statutory requirements, that continuing the Program benefits ratepayers, and that it plans to extend the Company’s GAP Program, MERC recommends maintaining some key successful Program aspects. In particular, MERC proposes to:

- Maintain MERC’s “Percent of Income” credit program component, calculated as: One-twelfth of the difference between MERC’s estimate of the qualified customer’s annual natural gas bill and six percent of the qualified customer’s monthly household income, as provided by the customer.
  - MERC is recommending the continuation of this percentage for the affordability credit because this percentage credit has resulted in success (especially for the high consumers, with the lowest income) for MERC participants during the Program pilot.
- Maintain MERC’s “Arrears Forgiveness” program component, calculated as: A matching credit of 1/12 of the pre-enrollment arrears, which is applied to a qualified customer’s account each month after receipt of the customer’s (1/12) monthly arrears payment. Pre-enrollment arrears are paid over 24 months.
  - MERC is recommending the continuation of a 24-month arrears forgiveness cycle because the more realistic (lower percentage of arrears) customer payment has been successful during the past four years.
- Continue to allow customers without arrears at the time of enrollment to participate in the Program for 12 months and allow customers with arrears at the time of enrollment to participate in the Program for 24 months. Customers would then be eligible to reenroll in the Program, if they

continue to qualify for enrollment through receipt of LIHEAP during enrollment or prior to future enrollment.

Additionally, MERC proposes the following program modifications:

- MERC proposes to reduce its annual budget from the currently approved budget of $1 million to a budget of $750,000. Over the period from 2011 through 2014, MERC's actual program spending has fallen well below the $1 million program budget. In particular, the average spending for 2012, 2013, and 2014 was approximately $680,000. Effective May 1, 2015, IPL's natural gas customers were transitioned to MERC's rates and tariffs, including MERC's GAP. IPL had previously had an approved GAP budget of $50,000. Based on this information, MERC believes an annual budget of $750,000 more accurately reflects historical and anticipated Program spending. MERC does not expect to incur start-up costs during the next four-year period.

- MERC requests that the Commission authorize MERC to recover the projected tracker balance as of December 31, 2015 amortized over the four-year Program extension period plus the $750,000 proposed annual budget through a revised per therm rate from 2016 to 2019. MERC's tariff provides that the Company may petition the Commission to adjust this rate in order to true up the Program balance in the tracker either in a general rate case or at the end of the initial four-year term of the Program.[14] As shown in Attachment D, the resulting per therm rate is $0.00158. This calculation incorporates the IPL GAP tracker balance as of April 30, 2015 as well as the remaining IPL GAP budget for 2015. MERC requests that the revised per therm rate become effective on January 1, 2016.[15]

- MERC proposes that the Program be extended for four years. A four-year extension would allow the Commission to again review MERC's Program.

MERC is submitting a redlined and clean tariff that includes the proposed Program modifications as discussed above as Attachment E.

I. Summary and Conclusion

This evaluation of MERC's GAP demonstrates that the Program satisfied the statutory requirements by lowering the percentage of income participants devote to energy bills, increasing the payment frequency of participants, decreasing the arrears of

[14] MERC Tariff, Sheet Nos. 7.11, paragraph 4.4.

[15] Given the two-week lead time needed to make this change in its billing system, MERC requests that the Commission approve the revised per therm rate by December 19, 2015. Otherwise, MERC proposes that the new per therm rate go into effect the first day of the month following the Commission's approval.

participants, and lowering utility collection costs. The Program was also delivered in a manner coordinated with other available low-income bill payment assistance and conservation resources. Furthermore, the Program helped leverage additional assistance dollars for this group of customers and MERC's other LIHEAP eligible customers.

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

While the Program did create some savings related to avoided write-offs, disconnections, reconnections, and collections activities, MERC estimates that the Program resulted in an overall net cost to MERC's ratepayers of approximately $1.6 million from 2011 through December 31, 2014. The Program also appears to have created societal benefits.

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

DATED: June 1, 2015

Respectfully Submitted,

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Attorney for Minnesota Energy
Resources Corporation

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2015 Evaluation of its Gas Affordability Program and Extension of Program for an Additional Four Years

Docket No. G011/M-15-___

SUMMARY OF FILING

SUMMARY OF FILING

Please take notice that on June 1, 2015, Minnesota Energy Resources Corporation ("MERC") submitted to the Minnesota Public Utilities Commission ("Commission") an evaluation of its Gas Affordability Program in compliance with the Commission's ORDER ACCEPTING REPORT, EXTENDING PROGRAM, AND INCREASING GAS AFFORDABILITY SURCHARGE in Docket No. G-007,011/M-07-1131 (December 29, 2011). MERC also requested Commission approval to extend its GAP for an additional four years, to reduce its annual GAP budget from $1 million to $750,000 and to modify its GAP surcharge from $0.00441 to $0.00158, effective January 1, 2016.

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

Attachment A

Summary of GAP Annual Report Statistics

Minnesota Energy Resources Corporation
GAP Program Evaluation - Summary of Annual Report Statistics

Line	Description	2011	2012	2013	2014	Total
1	Affordability Credit	$738,484	$642,388	$602,149	$628,002	$2,611,023
2	Arrearage Forgiveness Credit	$5,318	$4,497	$4,439	$15,062	$29,316
3	Program Administration Costs	$50,000	$50,000	$50,000	$50,000	$200,000
4	Start-Up Costs	$97,722	$0	$0	$0	$97,722
5	Enrollment at Year End	1,233	1,151	1,080	1,750	
6	New Enrollees	53	89	97	980	
7	GAP Customer Disconnections	12	4	15	39	70
8	GAP Disconnection Percentage	< 1%	< 1%	< 1%	< 1%	
9	LIHEAP Disconnection Percentage (Non-GAP)	1%	< 1%	< 1%	< 1%	
10	Firm Customer Disconnect Percentage	5%	3%	3%	3%	
11	Avoided Disconnections	28	5	36	93	162
12	Total GAP Customer Payments	$393,460	$719,543	$625,969	$1,339,082	$3,078,054
13	Number of GAP Customer Payments	15,327	10,486	9,928	14,922	50,663
14	Average Annual Bill Credit	$558	$552	$516	$305	
15	Average Monthly Bill Credit	$47	$46	$43	$37	

Line	Description	2011	2012	2013	2014	Total
16	Average Annual Bill GAP Participant	$336	$216	$288	$264	
17	Average Monthly Bill GAP Participant	$28	$18	$24	$22	
18	Average Year-End Arrearage GAP Participant	($714)	($867)	($374)	($552)	
19	Average Year-End Arrearage Residential	$110	$113	$119	$146	
20	Average Year-End Arrearage LIHEAP	$120	$253	$267	$209	
21	Average Arrears at Enrollment	$537	$120	$237	$36	
22	Retention Rate	96%	97%	95%	92%	
23	Default Due to Nonpayment	60	48	59	161	328
24	GAP Customers in Arrears at Year-End	111	118	136	436	
25	Total GAP Customer Arrears at Year-End	$5,169	$8,368	$13,904	$43,863	

Attachment B

Estimated Savings From Avoided Write-Offs

MERC Write - Offs (Gross)

Dollars	**2011**	**2012**	**2013**	**2014**
All Bad Debt $	$2,090,421	$1,808,166	$1,791,941	$2,402,951
LIHEAP Bad Debt $	$585,234	$576,171	$535,213	$686,260
% of LIHEAP vs All	28.00%	31.86%	29.87%	28.56%
GAP Bad Debt $	$27,683	$34,458	$21,774	$33,569
% of GAP vs LIHEAP	4.73%	5.98%	4.07%	4.89%
Accounts				
All Bad Debt Accounts	6,988	6,844	9,101	6,424
LIHEAP Bad Debt Accounts	1,681	1,716	2,592	1,793
% LIHEAP vs All	24.06%	25.07%	28.48%	27.91%
GAP Bad Debt All	1,233	1,151	1,080	2,060
GAP Bad Debt Accounts	70	74	107	71
% GAP vs LIHEAP	4.16%	4.31%	4.13%	3.96%
Average All Accounts Write-Off	$299.14	$264.20	$196.89	$374.06
Average LIHEAP Write-Off	$348.15	$335.76	$206.49	$382.74

	2011	2012	2013	2014
Estimated Write-Off Not Done Due to GAP	$ 97,399.42	$ 90,668.64	$ 57,220.33	$ 212,479.94
Est Afford Credts Write-Off Not Done Due to GAP	206,745.83	204,696.31	179,848.63	179,351.54
Est Arrs Forgive Crdts Write-Off Not Done Due to GAP	1,488.99	1,432.96	1,325.82	4,301.66
Total Write Offs Not Done due to GAP	$ 305,634.23	$ 296,797.92	$ 238,394.78	$ 396,133.14

Total Program Write Offs Not Done 2011-2014 **$ 1,236,960.07**

Attachment C

Projected Tracker Account Balance

Minnesota Energy Resources - Total Company
Gas Affordability Program Tracker
Forecasted balance at 12/31/15

242262

		Beginning Balance - Over/(Under) Collection	Funding (from bills)	Dollars Paid for Affordability	Dollars Paid for Arrearage Forgiveness	Admin Fee to Salvation Army	12/31/11 Balance Amortization	Carry Cost	Under-Collected Balance from IPL	Ending Balance - Over/(Under) Collection	
			RT 078 and 179	*RT 825*	*RT 826*	*RT 044*	*RT 012*	*RT 559*			
Actual	**Jan-15**	$ 1,106,456.38	$ 213,971.20	$ 63,564.44	$ 2,421.21	$ -	$ 14,848.33	$ 1,064.92		$ 1,238,528.68	
Actual	**Feb-15**	1,238,528.68	203,072.48	62,622.36	2,217.70	-	14,848.33	968.11		1,360,944.66	
Actual	**Mar-15**	1,360,944.66	223,823.30	62,625.33	2,155.22	-	14,848.33	936.64		1,504,202.44	(1)
Actual	**Apr-15**	1,504,202.44	118,994.63	62,239.20	1,968.88		14,848.33	774.49		1,543,366.17	
Fcst (2)	**May-15**	1,543,366.17	63,633.86	90,855.59	-		14,848.33	667.68	(8,807.56)	1,491,820.87	
Fcst	**Jun-15**	1,491,820.87	27,721.70	90,855.59	-	25,000.00	14,848.33	580.87		1,388,257.78	
Fcst	**Jul-15**	1,388,257.78	18,747.43	90,855.59	-		14,848.33	484.06		1,300,817.23	
Fcst	**Aug-15**	1,300,817.23	17,650.67	90,855.59	-		14,848.33	387.24		1,212,376.74	
Fcst	**Sep-15**	1,212,376.74	32,795.74	90,855.59	-		14,848.33	290.43		1,139,178.13	
Fcst	**Oct-15**	1,139,178.13	70,153.55	90,855.59	-		14,848.33	193.62		1,103,434.14	
Fcst	**Nov-15**	1,103,434.14	124,477.55	90,855.59	-		14,848.33	96.81		1,122,110.96	
Fcst	**Dec-15**	1,122,110.96	187,901.72	90,855.59	-	25,000.00	14,848.33	-		1,179,308.76	
			$ 1,302,943.83	$ 977,896.05	$ 8,763.01	$ 50,000.00	$ 178,179.96	$ 6,444.87	$ (8,807.56)	$ 1,179,308.76	

(1) March 2015 includes adjustments for the Emmons IA customers that should have charged for GAP. The funding from bills column includes a one time adjustment of $253.18 and the carry cost column includes a one time adjustment of $65.34.

(2) Forcasted funding from bills and dollars paid for affordability for forecasted months of May-Dec includes amounts related to acquired IPL customers.

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

Attachment D

Calculation of Revised Per Therm Rate

Minnesota Energy Resources Corporation

Proposed Gas Affordability Program Surcharge

Proposed Annual Budget	$750,000
Projected GAP Tracker Balance as of December 31, 2015	($1,179,308.76) (credit balance)
4-year amortization of GAP Tracker Balance	($294,827.19)
Total amount to be recovered on an annual basis	$455,172.81
Projected Firm Sales (Therms)	287,645,163 therms
Per Therm Rate (Proposed Effective January 1, 2016)	$0.00158/therm

Attachment E

Proposed Clean and Redlined Tariff Sheets

Redline Tariff Sheets

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")

1. Availability:

Available to residential customers in the MERC Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program ("LIHEAP") during the federal fiscal year ("Program Year"). Further, such customers must agree to be placed on a levelized payment plan and must also agree to a payment schedule as described below to be considered a "Qualified Customer."

2. Program Description and Rate Impact for Qualifying Customers:

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

2.1. *Affordability Component:*

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

2.2. *Arrearage Forgiveness Component:*

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

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")(Continued)

3. Conditions of Service:

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

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

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

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

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

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

4. Funding:

4.1. Total Program costs, which include start-up costs, Affordability component, Arrearage Forgiveness component and incremental administration costs incurred collectively by MERC shall not exceed $~~1 million ($1,000,000.00)~~750,000 per year plus the estimated tracker balance as of December 31, 2011. *See* Exhibit B. MERC shall limit administrative costs included in the Tracker (except start-up related costs) to 5% of total Program costs. Administrative costs will include, but are not limited to, the costs to inform customers of the Program and costs to process and implement enrollments.

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

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

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")(Continued)

4.4. Program costs shall be recovered in the applicable Delivery Charge for all firm service customers receiving service under Rate Schedules GS-NNG General Service, GS-Albert Lea General Service, and GS-Consolidated General Service. ~~The initial rate is~~The Delivery Charge shall be $0.00158~~441~~ per therm. The surcharge will be identified as a separate line item, Gas Affordability Program charge, on the customer's bill. MERC may petition the Commission to adjust this rate in order to true-up the Program balance in the Tracker either in a general rate case or at the end of ~~the initial four-year term of the Program~~four year extension of the Program.

5. Evaluation:

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

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

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

6. Program Revocation:

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

7. Term:

The Program shall ~~become effective January 1, 2012~~be extended effective January 1, 2016 and shall have a four-year term ending December 31, 2019~~5~~. The first Annual Report for the extended Program for the period January 1, 2016-December 31, 2016 shall be due March 31, 2017. Annual reporting will continue each year of the program thereafter and be due March 31. ~~Annual reporting will begin on March 31, 2012 and will continue each year thereafter, ending on March 31, 2015.~~

8. Applicability:

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

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")(Continued)

Exhibit B

MERC Total Firm~~TOTAL~~ Throughput~~*~~	287,645,163~~263,765,128/~~ therms
~~Projected program arrearage expenses~~Annual Program Budget	$7~~9~~50,000.00
~~Projected program administrative expenses~~	~~$50,000.00~~
Projected GAP Tracker Balance at Dec. 31, 2015~~1~~	($1,179,308.76)~~$653,461.25~~
4-Year Amortization of GAP Tracker Balance	($294,827.19)~~$163,365.31~~
Total amount to be recovered on annual basis	$455,172.81
~~Projected total program costs~~	~~$1,163,365.31~~
MERC affordability surcharge $~~1,163,365.31~~455,172.81/287645,163~~263,765,128/therm~~	$0.00158~~441~~/therm

~~*Volume data from DOC Witness Adam Heinen's Additional Rebuttal Testimony, DOC Exhibit__ (AJH-AR-4) in Docket No. G007,011/GR-10-977~~

Clean Tariff Sheets

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")

1. <u>Availability</u>:

Available to residential customers in the MERC Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program ("LIHEAP") during the federal fiscal year ("Program Year"). Further, such customers must agree to be placed on a levelized payment plan and must also agree to a payment schedule as described below to be considered a "Qualified Customer."

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

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

2.1. *Affordability Component:*

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

2.2. *Arrearage Forgiveness Component:*

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

GAS AFFORDABILITY SERVICE PROGRAM ("PROGRAM")(Continued)

3. Conditions of Service:

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

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

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

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

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

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

4. Funding:

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

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

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

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

4.4. Program costs shall be recovered in the applicable Delivery Charge for all firm service customers receiving service under Rate Schedules GS-NNG General Service, GS-Albert Lea General Service, and GS-Consolidated General Service. The Delivery Charge shall be $0.00158 per therm. The surcharge will be identified as a separate line item, Gas Affordability Program charge, on the customer’s bill. MERC may petition the Commission to adjust this rate in order to true-up the Program balance in the Tracker either in a general rate case or at the end of four year extension of the Program.

5. <u>Evaluation:</u>

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

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

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

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

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

7. <u>Term:</u>

The Program shall be extended effective January 1, 2016 and shall have a four-year term ending December 31, 2019. The first Annual Report for the extended Program for the period January 1, 2016-December 31, 2016 shall be due March 31, 2017. Annual reporting will continue each year of the program thereafter and be due March 31.

8. <u>Applicability:</u>

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

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

Exhibit B

MERC Total Firm Throughput	287,645,163 therms
Annual Program Budget	$750,000.00
Projected GAP Tracker Balance at Dec. 31, 2015	($1,179,308.76)
4-Year Amortization of GAP Tracker Balance	($294,827.19)
Total amount to be recovered on annual basis	$455,172.81
MERC affordability surcharge $455,172.81/287645,163	$0.00158/therm

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny being first duly sworn, deposes and says that on June 1, 2015, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the attached GAP Evaluation 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 1st Day of June, 2015.

/s/ Alice Jaworski
Notary Public, State of Minnesota
My Commission Expires: January 31, 2020

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