



85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
mn.gov/commerce/
651.539.1500 FAX 651.539.1547
An equal opportunity employer

April 18, 2014

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-11-409

Dear Dr. Haar:

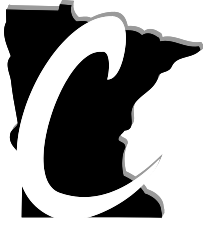
On March 18, 2014, the Minnesota Public Utilities Commission (Commission) issued a *Notice of Comment* in the above referenced docket. Attached please find the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department).

Department staff is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN L. PEIRCE
Rate Analyst

SLP/lt
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E015/M-11-409

I. BACKGROUND

On May 5, 2011, Minnesota Power (MP or the Company) filed a request for approval of a Pilot Rider for Customer Affordability of Residential Electricity (CARE Rider) consistent with the Minnesota Public Utilities Commission's (Commission) November 2, 2010 *Findings of Fact, Conclusions of Law and Order* in the Company's most recent rate case (Docket No. E015/GR-09-1151).

On September 26, 2011, the Commission issued its *Order Authorizing Pilot Program and Setting Further Requirements*. In its Order, the Commission approved the CARE Rider with a flat monthly surcharge of \$0.65 per retail electric customer, excluding customers who qualify for the federal Low Income Home Energy Assistance Program (LIHEAP). The Commission directed the Company to submit a proposal at the time of its first annual review filing for a surcharge that is tiered according to class, as an alternative to the flat-rate surcharge allocated on a per-customer basis.

On July 18, 2013, the Commission issued its *Order Accepting Report as Supplemented, Adopting Reporting Requirements, and Modifying Renewal Date*. In its Order, the Commission adopted the following reporting requirements for the CARE Program:

- Customer payment frequency;
- Disconnection;
- Payment amount;
- Customer payment history;
- Arrearage level;
- Coordination with other available low-income payment assistance programs;
- Participant billing impacts; and

- Participant electric usage.

In addition to reporting requirements, the Commission directed the Company to address the following possible modifications in its next annual report:

- A requirement that MP modify its CARE program so that customers falling below 50 percent of the state median income can participate in the program with total monthly budget payments of no more than 10 percent of a household's income;
- Incorporation of a monthly arrearage forgiveness component; and
- A requirement that MP increase monthly benefits so that payments are capped at no more than a certain percentage of household income.

II. SUMMARY OF FILING

A. SUMMARY OF THE CARE PROGRAM

The CARE Program provides discounted energy rates to Minnesota Power residential customers qualified for the Low Income Home Energy Assistance Program (LIHEAP), and to reduce participating customers' arrearages over time. MP contracts with the Arrowhead Economic Opportunity Agency (AEOA) for customer outreach and administration. Participation in the program is available to residential customers who qualify for LIHEAP assistance, whether or not they receive LIHEAP funding.

MP's latest annual report covers CARE Program participation and performance for the period October 1, 2012 through September 30, 2013 (2013 program year). Enrollment for the 2013 program year averaged 3,395 per month compared with 1,149 in the first program year. For the last six months of the program year (April – September 2013), average enrollment was 4,416. The Company indicated that a total of 1,316 customers were removed from the program during the program year.

For program year 2013, CARE participants' electric usage averaged 833 kWh per month compared with a monthly average of 790 kWh for LIHEAP customers and 749 kWh for all residential customers. MP reported that 21 percent of CARE Program participants were high usage customers (defined as over 1,000 kWh per month) compared with 22 percent of LIHEAP customers, and 23 percent of all residential customers.

MP reported that a total of \$719,437 in bill credits and discounts was provided in program year 2013 representing a monthly average credit of \$18 or \$212 annually. According to MP, 1,179 CARE participants had average arrearage balances of \$152 compared with an average arrearage balance of \$127 for all LIHEAP participants (including CARE participants). MP indicated that a comparison between the arrearage levels of CARE and LIHEAP participants is not fully available because the Company did not have full information on all LIHEAP, non-CARE customers. The Company indicated that it has taken the steps necessary to obtain information on LIHEAP, non-CARE customers for next year's annual report.

B. PROPOSED PROGRAM MODIFICATIONS

1. Arrearage Forgiveness

The Commission's July 18, 2013 Order directed MP to provide comment on incorporating an arrearage forgiveness component into its CARE Program. MP indicated that it will be implementing a new Customer Information System (CIS) in early 2015, and proposed to offer an arrearage forgiveness component to its CARE Program beginning in program year 2016 (October 2015 through September 2016) once the new CIS is in place. Specifically, the Company proposed the following terms and conditions:

- the applicant must be eligible and agree to participate in the CARE Program under the current service conditions;
- the customer must have an outstanding overdue balance that must be placed in a 24-month CARE payment plan;
- MP will forgive a portion of the past-due balance by matching the customer's payment amount to the CARE payment plan, until the arrears from the time of enrollment are paid;
- Any fuel assistance amount the customer receives will be used to pay the arrearage amount. MP will not match amounts paid by a third party.
- If the customer has new arrears, the customer will be removed from the CARE Program.

2. Re-enrollment Process

Currently, participants in the CARE Program are required to re-apply for participation on an annual basis. In its previous annual report, the MP noted a sharp drop in participation following the cutoff renewal date, and requested to extend the renewal date from November to December 31. Despite extending the timeframe for renewal and conducting additional marketing efforts, a total of 806 LIHEAP-qualified customers did not reapply for the CARE program, and were removed from participation. MP proposed to eliminate the requirement for re-enrollment for those customers continuing to be LIHEAP-qualified. Customers who are no longer LIHEAP-qualified would be removed from the CARE Program; however, if a customer remained LIHEAP-qualified, they would not be required to reapply for participation in the CARE Program.

C. UPDATE ON TRACKER BALANCE

As required by the Commission's Order, MP provided an update on its CARE Rider tracker balance. The CARE Program discounts are funded by a \$0.65 per month Affordability Surcharge on non-LIHEAP-qualified residential customers and other rate classes, except for Lighting class customers. For program year 2013, the Company collected \$955,817 from the Affordability Surcharge. Table 1, below summarizes the CARE Program Tracker for program year 2013.

Table 1: CARE Program Tracker Summary

Average Number of Customers	3,395
Tracker Balance Brought Forward	\$613,541
Affordability Surcharge collected	\$955,817
Total Discount provided to Customers	(\$719,437)
Accrued Interest	\$26,196
Total Tracker Balance (9/30/13)	\$876,117
Average Monthly Discount per Customer	(\$18)

Currently, MP does not recover the administrative costs of its CARE Program through its tracker account. For the 2013 program year, the Company incurred \$36,659 in administrative costs. In its July 18, 2013 Order, the Commission required MP to demonstrate that the CARE Program meets the low-income affordability program objectives described in Minn. Stat. §216B. 16, subd. 15(b) prior to recovery of administrative costs.

III. DEPARTMENT ANALYSIS

The Department has reviewed the Company's annual report, and believes it has complied with the reporting requirements set forth in the Commission's July 18, 2013 Order.

A. COMPLIANCE WITH MINN. STAT. §216B.16, SUBD. 15(B)

Minn. Stat. §216B.16, Subd. 15(b) requires that low-income affordability programs meet the following requirements:

1. Lower the percentage of income that participating households devote to energy bills;
2. Increase participating customer payments over time by increasing the frequency of payments;
3. Decrease or eliminate participating customer arrears;
4. Lower utility costs associated with customer account collection activities; and
5. Coordinate the program with other available low-income payment assistance and conservation resources.

The Department addresses each of these requirements below.

1. Lower the percentage of income that participating households devote to energy bills

MP does not track CARE Program participants' bills to their income; however, the Company did obtain information on its LIHEAP-qualified customers. Since the implementation of the CARE Program, the percentage of income spent on electricity by MP LIHEAP-qualified customers has decreased from 5.8 to 5.3 percent. Because CARE Program customers must qualify for LIHEAP assistance in order to participate, the Department concludes that the CARE Program is helping to reduce the percentage of participants' incomes devoted to electricity.

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

In total, CARE participants increased the number of payments made by approximately one percent in program year 2013. When payments are compared to the amounts billed, however, 2013 payments represented only 98.8 percent of the total amount billed compared with 100.6 percent for program year 2012 and 100.1 percent for 2011. Without the additional payments, CARE participants could have fallen even further behind the amounts billed.

3. *Decrease or eliminate participating customer arrears*

MP indicated that it is taking steps to improve the accuracy of its arrearage reporting for CARE participants. The Company reported that the average arrearage balance for all customers participating in the CARE program during the 2013 program year was \$31 compared with an average of \$30 for all participants in the 2012 program year. As noted above, payments as a percentage of the total amount billed CARE participants was 98.8 percent indicating that arrearages increased slightly for customers overall. Consequently, the Department is unable to conclude that the CARE Program has decreased participating customer arrears.

4. *Lower costs associated with account collection activities*

MP indicated that the number of disconnection notices increased significantly in 2013 due to a change in its process for serving customers with those notices. Despite the increase in notices, involuntary disconnections fell by approximately 15 percent for the program year 2013, thus reducing the associated collection costs.

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

MP indicated that it continues to focus on improving customer awareness of the CARE Program through a number of local community agencies. In addition, MP stated that it holds an annual "Listening Session" with participating agencies to gather feedback about the program and its marketing efforts. Although completion of the "Your Home Energy Report" (YHER) and a Home Energy Analysis are no longer required for participation in the CARE Program, MP reported that 2,644 CARE participants have completed a YHER, and 671 received a Home Energy Analysis resulting in 1,930 direct installations.

With the exception of decreasing customer arrearages, the Department concludes that MP's CARE Program has complied with most of the requirements of Minn. Stat. §216B.16, Subd. 15(b).

B. PROPOSED PROGRAM CHANGES

1. Arrearage forgiveness

MP proposed to implement an arrearage forgiveness component to its CARE program beginning in program year 2016 (October 2015 through September 2016). The timing of implementation is intended to coincide with the rollout of a new CIS with the capability of tracking arrearage forgiveness. The Department generally agrees that an arrearage forgiveness component is reasonable. Given the lack of detail on CARE customer arrearages currently available, the Department recommends revisiting the details of the arrearage forgiveness program in next year's annual report when MP indicated it will be able to provide additional comparison data on arrearages.

2. Program Re-enrollment

Currently, CARE participants must re-enroll annually to continue receiving CARE discounts. In addition, to participate in the CARE Program, customers must qualify for LIHEAP assistance which also requires an annual application. MP's CIS identifies those customers who are LIHEAP eligible. Despite extending the cutoff renewal date for participation in CARE, MP indicated that approximately 800 LIHEAP-qualified customers did not re-apply for CARE and were removed from the CARE Program in the current 2014 program year. Consequently, the Company proposed to eliminate the re-application requirement for customers who remain LIHEAP qualified. MP stated that it will continue to remove customers who are not LIHEAP-qualified for the new program year.

Given that LIHEAP eligibility is determined annually, the Department agrees that requiring LIHEAP-eligible customers to re-apply for CARE assistance is redundant, and can be eliminated.

3. Administrative Costs

MP has requested approval to recover its administrative costs for the CARE Program through the tracker account. In program year 2013, the Company had total administrative costs of \$36,659, or 4.85 percent of total program costs (\$719,437 discounts + \$36,659 administrative costs). Minn. Stat. §216B.16, Subd. 15(d) limits administrative costs to a maximum of five percent of total program costs. Thus, MP's CARE Program administrative costs fall within the range permitted recovery under the statute. As noted above, the Department is unable to conclude that the CARE Program has reduced customer arrearages in the current program year. Given the Commission's July 18, 2013 Order requiring MP to demonstrate that the CARE Program meets the low-income affordability program objectives described in Minn. Stat. §216B. 16, subd. 15(b) prior to recovery of administrative costs, the Department recommends that the Commission deny recovery of administrative costs at this time.

IV. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission:

- Accept Minnesota Power's CARE Program Annual Report;
- Allow Minnesota Power to eliminate the requirement that LIHEAP-eligible customers re-enroll in the CARE Program on an annual basis;
- Require Minnesota Power to provide additional comparison data on customer arrearages and to provide details on an arrearage forgiveness component to its CARE Program in its next annual report; and
- Deny Minnesota Power's request to recover its administrative costs through its CARE tracker account.

/t

CERTIFICATE OF SERVICE

I, Jan Mottaz, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Comments of the Minnesota Department of Commerce, Division of Energy Resources

Docket No. E015/M-11-409

Dated this 18th day of April 2014

/s/Jan Mottaz

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	OFF_SL_11-409_Official
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_11-409_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service 1400	No	OFF_SL_11-409_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_11-409_Official
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_11-409_Official
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	OFF_SL_11-409_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_11-409_Official
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_11-409_Official
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S Duluth, MN 55802	Electronic Service	No	OFF_SL_11-409_Official