

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Ellen Anderson
David C. Boyd
J. Dennis O'Brien
Phyllis A. Reha
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Minnesota Power's Petition for
Approval of a Pilot Rider for Customer
Affordability of Residential Electricity

ISSUE DATE: September 26, 2011

DOCKET NO. E-015/M-11-409

ORDER AUTHORIZING PILOT
PROGRAM AND SETTING FURTHER
REQUIREMENTS

PROCEDURAL HISTORY

On May 5, 2011 Minnesota Power (the Company) filed a petition for approval of a pilot affordability program consistent with the Commission's directive in its November 2, 2010, Findings of Fact, Conclusions, and Order in the Company's general rate case.¹

On June 3, 2011, the Energy Cents Coalition (ECC) filed comments recommending that the Commission approve the Company's proposal.

On June 13, 2011, the Department of Commerce (the Department) filed comments recommending that the Company provide an alternative discount structure that would more effectively target high-usage, low-income residential customers. The Department also requested that the Company file additional information on conservation programs it makes available to low-income consumers, and to include information on programs available to low-income renters.

On June 22, 2011, the Company filed reply comments in response to the issues raised by the Department. The Department subsequently recommended that the Commission approve the Company's proposal as revised.

On June 23, 2011, the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments concurring with the Department's recommendation for an alternative discount structure. The RUD-OAG also recommended that the pilot program be put on hold to address concerns raised generally by the RUD-OAG regarding use of an inverted block rate structure, which both Minnesota Power and CenterPoint Energy have

¹ See Docket No. E-015/GR-09-1151.

implemented. The RUD-OAG also argued however, that if the Commission approves the pilot program, that administrative costs should be excluded from recovery and that the Company should be required to make changes to its proposed allocation of the affordability surcharge.

On June 30, 2011, the Company filed a response to the RUD-OAG's comments urging the Commission to reject the RUD-OAG's request to delay implementation of the pilot program and recommendation to exclude recovery of administrative costs.

On August 24, 2011, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Minnesota Power's Proposal

In response to the Commission's directive in the Company's last rate case to "develop and propose a program to address the needs of low-income, high-usage residential customers,"² the Company filed its request for approval of a rider for its proposed Customer Affordability of Residential Electricity pilot program. The Company requested an effective date of November 1, 2011.

The Company stated that its program will provide the greatest discounts to low-income customers facing the highest bills, using an ascending (16% to 26%) discount structure that increases as usage increases. A discount of approximately \$15 per month will be applied to the average monthly customer usage of 750 kWh. The program's costs will be recovered from customers through implementation of a monthly surcharge of \$0.65 applicable to non-participating retail electric customers. The program will be initially available to 5,000 customers.

The proposal also includes use of conservation measures to increase customer savings. The Company stated that it works closely with community agencies to conduct audits to identify high-use appliances, for example, and offer ways to make home repairs or other adjustments that will reduce usage. The Company also stated that it works with Community Action Duluth to help low-income renters receive information on conservation and to work with building managers and landlords to identify and implement energy-savings opportunities, such as refrigerator replacement. The program also requires participating customers to complete a home energy report, which gathers information about each customer's usage to help identify ways to increase savings.

According to the Company, the proposed discounts, along with use of conservation measures, will have a significant impact on reducing low-income customers' bills and enhancing conservation.

In addition, the Company requested recovery of \$42,000 in administrative program costs and requested to add to its affordability program tracker account approximately \$40,000 in unpaid

² See the Commission's November 2, 2010 Findings of Fact, Conclusions, and Order, in Docket No. E-015/GR-09-1151, governing Minnesota Power's general rate case.

incentive compensation, which must be refunded to customers under the terms of a previous rate case order, but which has not been refunded.³

II. The Department

The Department evaluated the Company's filing and subsequent modifications to the discount structure and determined that the program will be effective in meeting the Commission's directive to develop a program that addresses the needs of low-income, high-usage customers. According to the Department, the program will provide meaningful discounts to all participating customers, while providing the greatest amount of financial relief to customers with the highest usage levels.

The Department also recommended that the Company be required to submit an annual filing detailing actual program costs, revenues, and tracker balances, along with information on participation levels, unpaid balances, and the number of disconnection notices issued. The Department also recommended that the filing include the number and average wait time of any customers who request participation and are placed on a waiting list. The Company concurred with the Department's requests.

The Department also responded to the RUD-OAG's recommendation to delay the program pending the outcome of an investigation into CenterPoint Energy's use of an inverted block rate structure. The Department stated that Minnesota Power currently has in place an inverted block rate structure to which the proposed discounts would apply and that delaying implementation of the affordability program would unreasonably prevent customers from receiving those discounts.

In addition, the Department stated that use of the \$0.65 per month flat rate customer surcharge is a reasonable method of allocating program costs for the pilot program. Further, the Department did not object to the Company's proposal to move approximately \$40,000 in remaining, incentive compensation refunds, to the Company's pilot program tracker account.

III. The RUD-OAG

The RUD-OAG argued that the Commission should delay implementation of the program until after issues raised about CenterPoint Energy's use of an inverted rate block structure, similar to the rate structure in place for Minnesota Power, are resolved.⁴ The RUD-OAG also, however, recommended changes to the Company's proposal should the Commission move to approve it.

³ On May 4, 2009, in Docket No. E-015/GR-08-415, the Commission issued its Findings of Fact, Conclusions of Law, and Order, requiring Minnesota Power to refund unpaid incentive compensation amounts to customers. The Company submitted a compliance filing in that docket on May 27, 2011, stating that a residual balance of approximately \$42,000 was left unrefunded due to the fact that some customers had left Minnesota Power's system and could not be located.

⁴ See *In the Matter of an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-08-1075. The RUD-OAG has requested that the Commission suspend CenterPoint Energy's inverted block rate structure as a result of negative bill impacts to some customers. The RUD-OAG raised concerns in this proceeding that Minnesota Power's inverted block rate structure, coupled with the affordability program, could cause billing issues, contributing to customer confusion and frustration.

The RUD-OAG supported excluding administrative costs from recovery and changing allocation of the surcharge. The RUD-OAG argued that the Company expects to reduce collection efforts as a result of its pilot program and that those savings may exceed the currently estimated administrative costs, justifying excluding those costs from recovery. In addition, the RUD-OAG recommended that the Commission exempt from payment of the surcharge other low-income consumers who do not participate in the Company's pilot program.⁵

The RUD-OAG specifically recommended allocating the surcharge on a class sales volume basis, not on a per customer basis as proposed by the Company. The RUD-OAG raised concerns that under the Company's proposal, over 80 % of the program's costs would be borne by the residential class, which provides less than 20% of the Company's revenues. Requiring all classes to pay according to usage would more equitably allocate program costs across all customer classes.

IV. Large Power Intervenor

The Large Power Intervenor (LPI) appeared at the Commission meeting to object to the RUD-OAG's proposal that the surcharge be allocated according to class sales volume. LPI argued that allocating the surcharge according to usage levels would potentially result in allocation of 67% of program costs to the large power class customers, who will not directly benefit from the proposed program. LPI disputed that large power customers have a higher ability to pay, arguing that energy is a huge component of their cost of production and that higher energy costs affect their ability to compete in national and global markets.

Further, LPI argued that the large power class customers experienced a substantial increase in rates relative to the residential class in the Company's last rate case. LPI therefore urged the Commission to reject the RUD-OAG's proposal and instead adopt the Company's proposal to allocate the surcharge on a per customer basis.

V. Commission Action

The Commission concurs with the Department that the Company's proposed discount structure reasonably meets the Commission's directive to develop a program that addresses the needs of low-income, high-usage customers. Further, the Commission declines to delay implementation of the program pending the resolution of issues related to CenterPoint Energy's use of an inverted block rate structure. It is important to enable Minnesota Power to prepare for implementation of its affordability program prior to the onset of the upcoming heating season to ensure that customers will receive discounts in a timely manner. The Commission will therefore authorize implementation of Minnesota Power's program, with an effective date of November 1, 2011.

The Commission also concurs with the Department and the Company that a flat rate monthly surcharge of \$0.65 per retail electric customer is a reasonable method of allocating the program's costs in the first year of the pilot program. Recognizing, however, that under this scenario, residential customers will incur a significantly greater percentage of the program's costs compared

⁵ At the Commission meeting, the Company concurred with the RUD-OAG's recommendation, stating that it would exempt from payment of the surcharge all customers who qualify for the federal Low Income Home Energy Assistance Program.

to other customer classes, the Commission will direct the Company to file a proposal with the surcharge tiered according to class; the proposal must be made promptly, and no later than the Company's first annual filing.

The Commission will also direct the Company to exempt from payment of the surcharge all customers who qualify for the federal Low Income Home Energy Assistance Program.

In addition, the Commission will exclude from cost recovery at this time the Company's estimated \$42,000 in administrative costs. The Company's efforts to reduce its collection costs could result in savings exceeding the administrative costs, and the Company's tracker balances, revenues, and program costs will be examined in detail when the Company submits its first annual filing.

The Commission will authorize the Company to transfer the \$40,000 in remaining, unrefunded incentive compensation to the Company's affordability tracker account.

And finally, the Commission will require the Company to submit a compliance filing within 15 days of the date of this Order that includes a copy of the pilot rider and a detailed description addressing compliance with the decisions contained herein.

ORDER

1. The Commission hereby approves Minnesota Power's revised pilot affordability proposal, with an effective date of November 1, 2011.
2. All customers who have qualified for the Low Income Home Energy Assistance Program are exempted from paying the affordability surcharge.
3. Administrative costs of the pilot program are excluded from recovery through the pilot program tracker account.
4. Within 15 days of the date of this Order, Minnesota Power shall submit a compliance filing that includes a copy of the pilot rider and a detailed description addressing compliance with the decisions contained herein.
5. No later than its first annual review filing, Minnesota Power shall file a proposal for a surcharge that is tiered according to class, as an alternative to the flat-rate surcharge allocated on a per customer basis.
6. The Commission hereby approves Minnesota Power's request to add approximately \$40,000 in remaining unpaid incentive compensation for calendar year 2009 to the pilot program tracker account.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary



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