



Minnesota Energy Resources Corporation
Suite 200
1995 Rahnclyff Court
Eagan, MN 55122
www.minnesotaenergyresources.com

August 2, 2016

VIA ELECTRONIC FILING

**PUBLIC DOCUMENT— TRADE SECRET
DATA HAS BEEN EXCISED**

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

**Re: In the Matter of the Petition of Minnesota Energy Resources Corporation
for Approval for Recovery of Natural Gas Extension Project Costs through
a Rider and for Approval of a New Area Surcharge for the Esko Project
Docket No. G011/M-16-_____**

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this miscellaneous rate change and tariff filing to the Minnesota Public Utilities Commission (“Commission”) for approval of a Natural Gas Extension Project Rider and a New Area Surcharge (“NAS”) to recover costs to extend natural gas service to customers in Esko Township, Minnesota. MERC seeks to recover less than 33 percent of the project costs under the Natural Gas Extension Project Rider Statute (Minn. Stat. §216B.1638), with the NAS financing the remainder of project costs.

The nonpublic version of this filing contains trade secret information. Specifically, the cost of plant additions, estimated customer sign-ups, estimated customer usage, and project map contained in Exhibits B and C of the filing are not generally known to, and not readily ascertainable by, vendors and competitors of MERC, who could obtain economic value from their disclosure. MERC maintains this information as trade secret. Accordingly, the nonpublic version of the New Area Surcharge filing contains data that qualifies as “Trade Secret Data” pursuant to Minnesota Statutes section 13.37, subdivision 1(b). The nonpublic version of Exhibit C is filed as a separate Excel file.

A copy of this miscellaneous tariff filing has been served on the Office of Attorney General – Residential Utilities and Antitrust Division. A summary of the filing has been served on all parties on MERC’s general service list.

Please contact me at (651) 322-8965 if you have any questions.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
Matt Schuerger
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Minnesota
Energy Resources Corporation for Approval
for Recovery of Natural Gas Extension Project
Costs through a Rider and for Approval of a
New Area Surcharge for the Esko Project

Docket No. G-011/M-16-_____

Pursuant to Minnesota Statutes section 216B.1638 and Minnesota Rules part 7829.1300, Minnesota Energy Resources Corporation (“MERC”) submits to the Minnesota Public Utilities Commission (“Commission”) this Petition for approval to recover **[TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS]** of the costs to extend natural gas service to customers in Esko, Minnesota through a Natural Gas Extension Project Rider under Minn. Stat. § 216B.1638 and for approval of a New Area Surcharge (“NAS”) to finance the remainder of project costs. The Esko Project is designed to extend natural gas service to a currently unserved area and the proposed project costs are reasonable.

In addition to MERC’s capital investments to extend natural gas to the Esko Project area, a tap from the Northern Natural Gas (“NNG”) interstate pipeline to connect to this area is also necessary. MERC proposes to include **[TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS]** of the NNG project costs in the proposed rider and to recover the remainder of those costs as operations and maintenance expense (“O&M”) through the NAS, amortized over the proposed 25-year term of the NAS. MERC also requests approval to apply a carrying charge at MERC’s authorized short-term cost of debt on the amortized NNG costs.

This filing includes the following:

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- One paragraph summary of the filing in accordance with Minn. R. 7829.1300, subp. 1.
- Petition for Approval of Natural Gas Extension Rider and New Area Surcharge for the Esko Project.
- Exhibit A Clean and redlined proposed tariff sheets.
- Exhibit B Map of the Esko Project Area.
- Exhibit C Proposed Natural Gas Extension Rider and Proposed New Area Surcharge Workpapers and Assumptions (Public and Nonpublic versions).
- Exhibit D Proposed Customer Notices.

I. Summary of Filing

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing is attached.

II. Service

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

III. General Filing Information

Pursuant to Minn. R. 7829.1300, subp.3, the following information is provided:

A. Name, Address, and Telephone Number of Filing Party

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

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B. Name, Address, Electronic Address, and Telephone Number of Attorney for the Utility

Kristin M. Stastny
Briggs and Morgan, P.A.
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
KStastny@briggs.com
(612) 977-8656

C. Date of the Filing and Date Proposed Agreement Will Take Effect

Date of Filing: August 2, 2016

Proposed Effective Date: Upon Commission Approval

MERC respectfully requests that the Commission rule on this filing so that construction of a service extension for the Esko Project may begin. Once approval has been received, the project will be scheduled. MERC is proposing to complete construction on the Esko Project during the regular 2017 construction season so that customers who sign up will receive natural gas service by the beginning of the 2017-2018 heating season. Completion of the interstate pipeline tap is necessary before MERC can complete construction of the extension project.

D. Statute Controlling Schedule for Processing the Filing

MERC submits its request for approval of rider recovery under Minn. Stat. § 216B.1638, which authorizes a public utility to petition the Commission outside a general rate case for a rider to recover the revenue deficiency from a natural gas extension project. Under Minn. R. 7829.0100, subp. 11, this petition is a “miscellaneous” filing because no determination of MERC’s general revenue requirement is necessary. Comments on a miscellaneous filing are due within 30 days of filing, with replies due 10 days thereafter. See Minn. R. 7829.1400, subps. 1, 4.

E. Signature, Electronic Address, and Title of Utility Employee Responsible for the Filing



Amber S. Lee
Regulatory and Legislative Affairs Manager
ASLee@minnesotaenergyresources.com
1995 Rahnclyff Court, Suite 200
Eagan, MN 55122
(651) 322-8965

F. Description of the Filing, Impact on Rates and Services, and Reasons for the Filing

Pursuant to Minn. Stat. § 216B.1638, MERC is requesting approval for recovery of **[TRADE SECRET DATA BEGINS... ██████████ ... TRADE SECRET DATA ENDS]** of the costs of new infrastructure and upgrades to existing natural gas facilities necessary to serve the currently unserved area of Esko, Minnesota. Pursuant to Minn. Stat. § 216B.1638, a public utility may petition the Commission outside of a general rate case for a rider that shall include all of the utility's customers, including transport customers, to recover the revenue deficiency from a natural gas extension project. The Esko Project meets the definition of a natural gas extension project because the Project is necessary to serve the currently unserved area of Esko, Minnesota. The Esko Project area is not currently served by natural gas; therefore, this Project area is a qualifying area in the state lacking adequate natural gas pipeline infrastructure to meet the demand of existing or potential end-use customers.

Pursuant to Minn. R. 7829.1300 and MERC's approved New Area Surcharge tariffs, MERC is requesting approval to establish a New Area Surcharge for customers located in Esko Township, in northern Minnesota, to provide natural gas service to customers in the Esko Project area who do not currently receive natural gas service. A New Area Surcharge is designed to permit a natural gas company to extend service into a new area it would be uneconomical to serve at tariffed rates, by permitting the company to collect an additional surcharge. By extending the necessary contributions in aid of construction of the project costs

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over twenty-five years rather than charging a one-time charge, the project will be made affordable to customers wishing to switch to natural gas service. The impact of this petition on rates and services will be to extend natural gas service to a new area of customers who have not previously been served. Those customers' rates will include a monthly new area surcharge in addition to currently authorized rates for natural gas service to pay for the costs of the natural gas extension.

In addition to MERC's capital investments to extend natural gas to the Esko Project area, a tap from the NNG interstate pipeline to connect to this area is also necessary. MERC proposes to include [TRADE SECRET DATA BEGINS... ██████████ ... TRADE SECRET DATA ENDS] of the NNG project costs in the proposed rider and to recover the remainder of those costs as O&M through the NAS, amortized over the proposed twenty-five year term of the NAS. MERC also requests approval to apply a carrying charge at MERC's authorized short-term cost of debt on the amortized NNG costs.

IV. Miscellaneous Information

Pursuant to Minn. R. 7829.0700, MERC requests that the following persons be placed on the Commission's official service list for this matter:

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8965
ASLee@minnesotaenergyresources.com

If additional information is required, please contact Amber S. Lee at (651) 322-8965 or Kristin M. Stastny at (612) 977-8656.

DATED: August 2, 2016

Respectfully Submitted,

BRIGGS AND MORGAN, P.A.

By /s/ Kristin M. Stastny
Kristin M. Stastny
2200 IDS Center

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80 South 8th Street
Minneapolis, MN 55402
Telephone: (612) 977-8656
KStastny@Briggs.com

Attorney for Minnesota Energy
Resources Corporation

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
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In the Matter of the Petition of Minnesota
Energy Resources Corporation for Approval
for Recovery of Natural Gas Extension Project
Costs through a Rider and for Approval of a
New Area Surcharge for the Esko Project

Docket No. G-011/M-16-_____

SUMMARY OF FILING

Pursuant to Minnesota Statutes section 216B.1638 and Minnesota Rules part 7829.1300, Minnesota Energy Resources Corporation (“MERC”) submits to the Minnesota Public Utilities Commission (“Commission”) this Petition for approval of a Natural Gas Extension Project Rider and a New Area Surcharge (“NAS) to recover costs to extend natural gas service to customers in Esko Township, Minnesota. MERC seeks to recover less than 33 percent of the project costs under the Natural Gas Extension Project Rider (Minn. Stat. § 216B.1638) with the NAS financing the remainder of project costs for a period of twenty-five years. MERC also requests approval to amortize the costs associated with upgrades to the interstate pipeline, which are necessary to provide natural gas service to the Esko Project area, over a period of twenty-five years, including carrying costs at MERC’s currently authorized short-term cost of debt.

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of the Petition of Minnesota
Energy Resources Corporation for Approval
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Costs through a Rider and for Approval of a
New Area Surcharge for the Esko Project

Docket No. G-011/M-16-_____

**PETITION FOR APPROVAL OF NATURAL GAS EXTENSION PROJECT RIDER AND
NEW AREA SURCHARGE**

I. INTRODUCTION

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits for Commission approval a miscellaneous rate change filing for approval to recover **[TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS]** of the costs to extend natural gas service to customers in Esko, Minnesota through a Natural Gas Extension Project (“NGEP”) Rider under Minn. Stat. § 216B.1638 and for approval of a New Area Surcharge (“NAS”) to finance the remainder of project costs over twenty-five years. The Esko Project is designed to extend natural gas service to a currently unserved area and the proposed project costs are reasonable. The proposed new area surcharges for the Esko Project were calculated according to the model approved by the Commission in MERC’s Detroit Lakes – Long Lake New Area Surcharge proceeding, Docket No. G011/M-15-441. MERC proposes a twenty-five year term for the Esko Project New Area Surcharge. The proposed clean and redline tariff sheet revisions are included as Exhibit A and a map of the area to be served is included as Exhibit B to this filing. MERC also requests approval to amortize the costs associated with upgrades to the interstate pipeline, which are necessary to provide natural gas

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service to the Esko Project area, over a period of twenty-five years, including carrying costs at MERC's currently authorized short-term cost of debt.

Minn. Stat. § 216B.1638, the NGEPRider Statute, provides that “[a] public utility may petition the Commission outside a general rate case for a rider that shall include all of the utility’s customers, including transport customers, to recover the revenue deficiency from a natural gas extension project.” The revenue deficiency of an NGEPRider is defined as:

The deficiency in funds that results when [1] projected revenues from customers receiving natural gas service as the result of a natural gas extension project, plus [2] any contribution in aid of construction paid by these customers, fall short of the total revenue requirement of the natural gas extension project.¹

The calculation of the revenue deficiency “must include [1] the currently authorized rate of return, [2] incremental income taxes, [3] incremental property taxes, [4] incremental depreciation expenses, and [5] any incremental operation and maintenance costs.”²

Subdivision 2 sets forth the requirements for a petition seeking approval of an NGEPRider and Subdivision 3 of the statute provides that the Commission must not approve a rider that allows a utility to recover more than “33 percent of the costs of a natural gas extension project.” The required information for a petition seeking approval of an NGEPRider is provided below.

II. NATURAL GAS EXTENSION PROJECT RIDER

The following is submitted in accordance with Minn. Stat. § 216B.1638:

A. Description of Natural Gas Extension Project

Minn. Stat. § 216B.1638, subd. 2(b)(1) requires that a Petition for approval of an NGEPRider include a description of the NGEPRider, including the number and location of new customers to be served and the distance over which natural gas will be distributed to serve the unserved or inadequately served area.

¹ Minn. Stat. § 216B.1638, subd. 1(f). The “total revenue requirement” of a project means “the total cost of extending and maintaining natural gas service to a currently unserved or inadequately served area.” *Id.*, subd. 1(g).

² Minn. Stat. § 216B.1638, subd. 3(d).

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The Esko Project is designed to extend natural gas service to a currently unserved area in Esko, Minnesota, by connecting to the NNG interstate pipeline system [TRADE SECRET

DATA BEGINS... [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] ...TRADE SECRET DATA ENDS]. Services

and meters will be installed in accordance with customers' requests and costs will be determined in accordance with MERC's approved service extension tariff and 75-foot service line allowance. See **Nonpublic Exhibit B** for a map of the proposed Project area. Based on initial outreach and projections, MERC is projecting [TRADE SECRET DATA BEGINS...

[REDACTED]

[REDACTED] ...TRADE

SECRET DATA ENDS] to sign up during the first year of the Project. During the 25-year

Project life, MERC has initially projected [TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]

[REDACTED] ... TRADE SECRET DATA ENDS] will participate in the Project. As

discussed in greater detail below, while MERC is not currently projecting any customers taking service within the Large Volume Interruptible class, economic conditions could drive a customer to switch from firm Commercial/Industrial service to Interruptible and/or from Small Volume Interruptible to Large Volume Interruptible service. These new customers will all be located within the Township of Esko, Minnesota in an area that is primarily residential.

Esko Township has provided a current count of [TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]

...TRADE SECRET DATA ENDS] in the industrial park, and the Township has indicated

[TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]...TRADE SECRET DATA ENDS]. The Township anticipates that with natural gas availability, the interest in development will increase. [TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]...TRADE SECRET DATA ENDS]. The County and Township believe natural gas availability will spur additional development within the industrial park.

B. Proposed Construction Schedule

Minn. Stat. § 216B.1638, subd. 2(b)(2) requires that a Petition for approval of an NGEP Rider include the project's construction schedule. Pending Commission review and approval, MERC is proposing to complete construction on the Esko Project during the regular 2017 construction season so that customers who sign up will receive natural gas service by the beginning of the 2017-2018 heating season. Completion of the interstate pipeline connection and new town border station is necessary before MERC can complete construction of the extension project. MERC has projected a construction schedule [TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]...TRADE SECRET DATA ENDS].

C. Contributions in Aid of Construction

Minn. Stat. § 216B.1638, subd. 2(b)(4) requires that a Petition for an NGEP Rider shall include the amount of any contributions in aid of construction. Minn. Stat. § 216B.1638, subd. 2(b)(5) requires that a Petition for an NGEP Rider shall include a description of efforts made by the public utility to offset the revenue deficiency through contributions in aid of construction.

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To determine the amount proposed for recovery via an NGEF Rider, [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS].

Once the amount proposed for rider recovery was determined, MERC utilized the approved New Area Surcharge model to calculate the contribution in aid of construction, or the portion of Project costs that is not load and cost justified under MERC’s existing natural gas rates. MERC relied upon its past experience with other approved New Area Surcharges to determine a range of NAS that would be likely to encourage the highest level of participation by potential customers in the Project Area. The portion of total project costs less the [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS] of costs proposed to be recovered through an NGEF rider that were not determined to be cost and load justified will be recovered as a contribution in aid of construction from participating customers through a New Area Surcharge. In other words, MERC utilized the following process to determine the contribution in aid of construction that would be proposed for recovery via a New Area Surcharge:

- Step 1: Determine percentage of total project costs (MERC construction costs and incremental O&M costs related to NNG upgrades) (up to 33 percent) to be recovered via an NGEF Rider in order to make the NAS reasonably affordable. [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS].
- Step 2: Run total project costs (MERC construction costs and incremental O&M costs related to NNG upgrades) less costs proposed for recovery through the NGEF rider through approved NAS model to determine the contribution in aid of construction (i.e., the portion of remaining Project costs which projected revenues from customers anticipated to receive natural gas service as a result of the Project will not cover).

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Step 3: The NAS model calculates the monthly new area surcharge amounts, by customer class, based on customer charge allocation in order to recover the calculated contribution in aid of construction over the proposed term of the NAS.

Step 4: Calculate per-therm NGEP Rider surcharge to be assessed to all MERC customers by dividing the proposed NGEP Rider Costs by the sales forecast approved in Docket No. G011/GR-13-617.

D. Amount of Revenue Deficiency and Proposed Allocation

Minn. Stat. § 216B.1638, subd. 2(b)(6) requires that a Petition for an NGEP Rider shall include the amount of the revenue deficiency, and how recovery of the revenue deficiency will be allocated among industrial, commercial, residential, and transport customers. As noted above, the statute defines the revenue deficiency as “the deficiency in funds that results when projected revenues from customers receiving natural gas service as the result of a natural gas extension project plus any contributions in aid of construction paid by these customers, fall short of the total revenue requirement of the natural gas extension project.” With respect to the Esko Project, MERC calculated the “revenue deficiency” by first determining the difference between the total revenue requirement and the amount of attained revenue in accordance with MERC’s approved New Area Surcharge model and tariffs. See MERC Tariff Sheet Nos. 9.14-9.17 and Exhibit C. To determine the amount proposed for recovery via the NGEP Rider, [TRADE

SECRET DATA BEGINS... [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **...TRADE SECRET DATA ENDS].**

MERC proposes to recover [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS] of the total costs of the Esko Project under the NGEP rider, which amounts to [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS].

This is consistent with Minn. Stat. § 216B.1638, subd.3(c), which authorizes the Commission to

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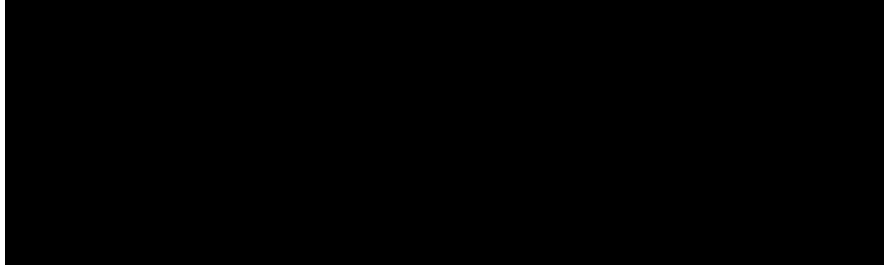
approve rider recover of up to “33 percent of costs of a natural gas extension project.” In accordance with Minn. Stat. § 216B.1638, subd. 3(d), MERC’s revenue deficiency calculation, as reflected in its approved New Area Surcharge model, includes the currently authorized rate of return, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs, including a portion of the incremental O&M costs related to the NNG tap.³ In addition to MERC’s capital investments to extend natural gas to the Esko Project area, which have been estimated at [TRADE SECRET DATA BEGINS... ██████████ ... TRADE SECRET DATA ENDS], a tap from the NNG interstate pipeline to connect to this area is also necessary. The anticipated price of the NNG connection is [TRADE SECRET DATA BEGINS... ██████████ ... TRADE SECRET DATA ENDS]. MERC proposes to include [TRADE SECRET DATA BEGINS... ██████████ ... TRADE SECRET DATA ENDS] of the NNG project costs in the proposed rider and to recover the remainder of those costs as O&M through the NAS, amortized over the proposed twenty-five year term of the NAS. MERC also requests approval to apply a carrying charge at MERC’s authorized short-term cost of debt on the amortized NNG costs. As set forth in the NGEP Rider Statute, inclusion of incremental O&M costs such as the O&M expense related to installation of the NNG tap are recoverable through a rider.⁴

MERC is proposing to allocate recovery of the rider revenue deficiency across all MERC customers in all customer classes including industrial, commercial, residential, and transport customers, on a per-therm basis. Attachment C includes a calculation of the proposed per-therm charge:

³ Minn. Stat. § 216B.1638, subd. 3 (d) (“The revenue deficiency from a natural gas extension project recoverable through a rider under this section must include the currently authorized rate of return, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs.”). The O&M costs included in MERC’s calculation of the Project’s revenue deficiency include the expense related to NNGs’ installation of a tap to connect to the interstate pipeline.

⁴ “The revenue deficiency from a natural gas extension project recoverable through a rider under this section *must include* . . . any incremental operation and maintenance costs.” Minn. Stat. § 216B.1638, subd. 3 (d) (emphasis added).

[TRADE SECRET DATA BEGINS...



...TRADE SECRET DATA ENDS]

E. Proposed Method of Recovery

Minn. Stat. § 216B.1638, subd. 2(b)(7) requires that the Petition include the proposed method to be used to recover the revenue deficiency from each customer class, such as a flat fee, a volumetric charge, or another form of recovery. MERC proposes to recover the portion of the Esko Project costs to be recovered via the NGEP Rider through a per-therm charge, as shown above and in Exhibit C. Based on MERC's projected Project costs, including O&M costs related to installation of the NNG connection, and proposal to recover [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS] through the rider, MERC is projecting a per-therm charge for recovery of Esko Project costs of \$0.00106 per therm over a one-year period. The rider surcharge would commence on a service-rendered basis the first day of the month following Commission approval and would be subject to true-up following completion of the Project once the one-year surcharge is completed.

F. Proposed Termination Date

Minn. Stat. § 216B.1638, subd. 2(b)(8) requires that the Petition include the proposed termination date of the rider to recover the revenue deficiency. For the Esko Project costs, MERC proposes that the NGEP Rider terminate after one year. MERC has calculated a projected per-therm rider rate of \$0.00106 per therm for recovery of the proposed [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS] of costs as discussed above over the course of one year. Because the bill impact of the proposed rider would be relatively small pursuant to a one-year recovery period, MERC believes such a recovery period

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is reasonable and appropriate. Within 3 months after the completion of the Project and the 12-month term of the surcharge, MERC will recalculate [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS] of the project costs (“Actual Rider Costs”) based on actual project expenditures, and compare that calculation to what was actually collected via the NGEF surcharge. If the Actual Rider Costs exceed that recovered via the NGEF surcharge, an additional surcharge will be proposed. If the Actual Rider Costs are less than what was recovered via the NGEF surcharge, a customer credit will be proposed.

G. Benefits to Existing Natural Gas Customers

Minn. Stat. § 216B.1638, subd. 2(b)(9) requires that the Petition include a description of the benefits to the public utility’s existing natural gas customers that will accrue from the NGEF. The proposed Esko Project is anticipated to add approximately [TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS] within the Esko Project area and also creates additional opportunities in the future to extend into surrounding areas as development in this region continues. The addition of these customers will increase the total number of customers across MERC’s system to share in the overall cost of service. Further, because the Esko Township is a growing community, this Project will help to open up future growth opportunities to expand natural gas service to even more customers.

III. PROPOSED NEW AREA SURCHARGE FOR THE ESKO PROJECT

The Commission originally approved MERC’s New Area Surcharge tariff by Order dated July 26, 2012, in Docket No. G007,011/M-11-1045. That Order required that any filing for a miscellaneous rate change for a specific New Area Surcharge project include, at a minimum:

- A. An updated surcharge tariff sheet and its related spreadsheets with and without the proposed surcharge for each new area surcharge area;
- B. Its workpapers showing all underlying assumptions concerning interest rates, costs, depreciation, demographics, rate structure, etc.;
- C. A surcharge rate for each customer class, even if no customers are anticipated for the class;

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- D. The Company's proposed customer notice; and
- E. All pertinent contract demand entitlement change requests as soon as the required information is ascertained.

In Docket No G011/M-14-524, the Commission approved MERC's request to modify its New Area Surcharge tariffs to extend the maximum term of a New Area Surcharge from 15 to 30 years. In Docket No. G011/M-15-441, by Order dated July 28, 2015, the Commission required MERC to revise its NAS tariffs and model to exclude the conservation cost recovery charge ("CCRC") from the marginal distribution revenue stream and to incorporate the Company's existing 75-foot service extension allowance for residential service installation.

This filing for the Esko Project is MERC's fourth filing under the New Area Surcharge tariff approved by the Commission (concurrently with MERC's filing for approval of a Balaton Project New Area Surcharge). The New Area Surcharge enables natural gas service to be extended to an area that would generate insufficient revenues under the Company's present rates and service extension policy. This is accomplished by setting a surcharge at a level that will bring the Net Present Value of the project to approximately \$0 over the life of the Project. The required filing information is provided below:

A. Updated Surcharge Tariff Sheets

The proposed clean and redline tariff sheets reflecting the proposed Esko Project New Area Surcharge are included as Exhibit A to this filing. Exhibit A also includes proposed tariff amendments for implementation of the proposed NGEP Rider, as requested herein.

B. Workpapers Showing New Area Surcharge Assumptions

The proposed New Area Surcharge workpapers and assumptions are included as Exhibit C to this filing.

C. A Surcharge Rate for Each Customer Class

The following class surcharges are proposed for the Esko Project. MERC currently anticipates that the customer base in the Esko Project area will include Residential, Small C&I,

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Large C&I, and Small Volume Interruptible (“SVI”). MERC is requesting that the Commission approve NAS rates for those four classes as well as for the Large Volume Interruptible (“LVI”) class, as indicated in Exhibit A to this filing. While MERC is not currently projecting any customers taking service within the LVI customer class, economic conditions could drive a customer to switch from firm Commercial/Industrial service to Interruptible service and/or from SVI service to LVI service. The development that is anticipated in the Esko Project area would accommodate LVI customers and MERC is aware of potential customers who could potentially qualify for and move to LVI service in the future. The proposed rate for the LVI customer class is calculated using the same methodology as for other classes, although the model currently does not assume any customers will be taking service under MERC’s LVI tariffs. In the event a LVI customer participates in the new area, all participants will benefit as the total Project costs financed through the NAS are paid down more quickly, resulting in the possibility the NAS will be terminated before the end of the 25 years. While MERC acknowledges that in its past NAS petitions the Commission has only approved NAS factors for those customers classes for which MERC projects customers, the Esko Project is unique compared to MERC’s previous NAS filings because it is an extension to a new town that includes commercial and industrial customers rather than being a primarily residential development.

MERC has calculated these proposed surcharges based on the customer charge allocation, as MERC believes this approach results in the most fair and reasonable surcharges across the four customer classes for which MERC is requesting approval.

Esko Project New Area Surcharges	
Residential	\$24.18
Small Commercial and Industrial	\$45.81
Large Commercial and Industrial	\$114.53
Small Volume Interruptible	\$419.95
Large Volume Interruptible	\$470.85

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MERC's calculation of the proposed surcharge is reasonably designed to recover the portion of the cost of the extension that would be uneconomical to serve at tariffed rates and are not proposed to be recovered through the NGEF Rider authorized under Minn. Stat.

§ 216B.1638. The New Area Surcharge rates are set at a reasonable level that will ensure customers may reasonably make the economic decision to switch to natural gas service.

MERC proposes that the surcharges be in effect for a period not to exceed twenty-five years. If gas service and billing to the Esko area commences in November 2017, the surcharge would terminate in November 2042. MERC will terminate the surcharge when the projected revenue deficiency is satisfied or at the end of twenty-five years, whichever occurs first.

D. Proposed Customer Notices

A proposed customer notice that is consistent with the notices that have been approved for MERC's previous New Area Surcharges is attached as Exhibit D. Consistent with prior New Area Surcharge filings, MERC proposes to submit sample bills for the month of January in compliance after approval of the proposed New Area Surcharge. Additionally, MERC proposes to include a bill message for all MERC customers regarding the NGEF Rider on the first month the rider surcharge appears on customers' bills as follows:

Effective [DATE], a Natural Gas Extension Project Rider surcharge ("NGEF Surcharge") has been included on your bill for the Esko Natural Gas Extension Project. The NGEF Surcharge is a surcharge authorized under Minn. Stat. §216B.1638 and is intended to recover a portion of costs related to the construction of new infrastructure or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas. Effective [DATE], the NGEF Surcharge rate for the Esko Project will be \$0.00106 per therm and will appear as a line item on your bill labeled "Natural Gas Extension Project – Esko."

E. Contract Demand Entitlement Change Requests

At this time, no demand entitlement changes are anticipated to be required because the demand needs of the Esko Project customers will be served off existing demand contracts. In

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the event additional demand entitlements are required, MERC will include those in its demand entitlement filing.

F. Revenue Impacts

Additionally, the proposed tariff change will not affect the current level of MERC revenues. New Area Surcharge billings are not considered Operating Revenues. New Area Surcharge billings to customers will be recorded as balance sheet credits to an account receivable when the surcharge is approved. The portion of the New Area Surcharge billing related to interest will be credited to a non-operating income account.

G. Reporting Requirements

In its June 10, 2016, Order Approving New Area Surcharge and Requiring Compliance Filing in Docket No. G011/M-16-221, the Commission approved annual new area surcharge project reporting requirements on March 1 of each year and required that MERC report on all New Area Surcharge rider projects including:

- The number of customers divided by classes used to calculate the surcharge revenue and the retail margin revenue; and
- The actual surcharge and retail revenue received to date and projected surcharge revenue for the remaining term of the surcharge, and the actual capital costs and projected remaining capital costs for the project.

Upon approval, MERC will include the Esko Project in its annual reporting on New Area Surcharge projects.

The proposed New Area Surcharge is in the public interest. Because natural gas costs less than alternative fuels, customers will benefit from the additional fuel choice. Lower energy bills free money for investment and purchases in the area, spurring economic development. The NAS will ensure the project is affordable for customers wishing to switch to natural gas service.

IV. CONCLUSION

PUBLIC DOCUMENT— TRADE SECRET DATA HAS BEEN EXCISED

MERC respectfully requests approval for recovery of [**TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS**]of costs for the Esko Project through a Natural Gas Extension Rider, for approval of a New Area Surcharge for the proposed Esko Project, and for approval to amortize costs associated with interstate pipeline upgrades necessary for the Project over the twenty-five year term of the new area surcharge, with carrying charges at MERC's currently authorized short-term cost of debt.

If additional information is required, please contact Amber S. Lee at (651) 322-8965 or Kristin M. Stastny at (612) 977-8656.

DATED: August 2, 2016

Respectfully submitted,

BRIGGS AND MORGAN, P.A.

By /s/ Kristin M. Stastny
Kristin M. Stastny
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
Telephone: (612) 977-8656
KStastny@Briggs.com

Attorney for Minnesota Energy
Resources Corporation

Exhibit A
Clean Tariff Sheets

EXTENSION OF NATURAL GAS SERVICE

3. NEW AREA SURCHARGE RIDER (Continued)

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement (Column 13) and the amount of Retail Revenue (Column 14). Excess occurs when the Total Revenue Requirement in a given year is less than the total Retail Revenue generated. Deficiency occurs when the Total Revenue Requirement in a given year is more than the total Retail Revenue generated.

16) Present Value of Cash Flows: The cash flows that produce either revenue excesses or deficiencies (Column 15) are discounted to a present value using a discount rate equal to the cost of long-term debt established in the most recent general rate proceeding.

If the sum of the present value calculations over the life of the project is zero, or as close to zero as possible, the model demonstrates that the project is “self supporting.” That is, the customer CIAC surcharge is the proper amount of customer contributed capital necessary to support the project at the projected (or actual) level of retail revenues.

Surcharge Rider Rates:

A surcharge as designated will be included in the monthly bills of the following Minnesota geographical areas:

Ely Lake Project 20 Year New Area Surcharge Expires 2034	
Residential	\$25.45
Existing Small Commercial	\$25.45

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential	\$19.16
Small Commercial/Interruptible	\$36.30

Fayal Township—Long Lake Project 20 Year New Area Surcharge Expires 2036	
Residential	\$21.16
Small Commercial/Industrial	\$40.09

Esko Project 25 Year New Area Surcharge Expires 2042	
Residential	\$24.18
Small Commercial/Industrial	\$45.81
Large Commercial/Industrial	\$114.53
Small Volume Interruptible	\$419.95
Large Volume Interruptible	\$470.85

Issued By: Theodore Eidukas
VP – Regulatory Affairs

Submittal Date: August 2, 2016

*Effective with bills issued on and after this date.

*Effective Date: Upon Commission Approval
Proposed Effective Date: Upon Commission Approval

EXTENSION OF NATURAL GAS SERVICE

3. NEW AREA SURCHARGE RIDER (Continued)

Surcharge Rider Rates (continued):

A surcharge as designated will be included in the monthly bills of the following Minnesota geographical areas:

Balaton Project 25 Year New Area Surcharge Expires 2042	
Residential	\$25.14
Small Commercial/Industrial	\$47.64
Large Commercial/Industrial	\$119.10
Small Volume Interruptible	\$419.34
Large Volume Interruptible	\$470.17

Issued By: Theodore Eidukas
VP – Regulatory Affairs

Submittal Date: August 2, 2016

*Effective with bills issued on and after this date.

*Effective Date: Upon Commission Approval
Proposed Effective Date: Upon Commission Approval

EXTENSION OF NATURAL GAS SERVICE

3. NATURAL GAS EXTENSION PROJECT RIDER

Applicability:

Applicable to bill of all Minnesota Energy Resources’ natural gas customers including all Residential, Commercial, Industrial, Interruptible, Joint Service, and Transport customers.

Rider:

The Natural Gas Extension Project (NGEP) Rider is designed to recover up to 33 percent of the costs of construction of new infrastructure and/or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas. Upon approval by the MPUC of an NGEP project for Rider recovery, there shall be included on each customer’s monthly bill an NGEP Surcharge relevant to that Project, which shall be calculated by multiplying the monthly applicable billing therms by the approved NGEP Surcharge. The term for recovery of NGEP project costs shall be determined upon approval of the NGEP Project.

Approved NGEP Rider Surcharges and Recovery Periods:

NGEP Project	Surcharge	Recovery Period
Esko Project	\$0.00106/therm	1 year
Balaton Project	\$0.00071/therm	1 year

Exhibit A
Redline Tariff Sheets

EXTENSION OF NATURAL GAS SERVICE

3. NEW AREA SURCHARGE RIDER (Continued)

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement (Column 13) and the amount of Retail Revenue (Column 14). Excess occurs when the Total Revenue Requirement in a given year is less than the total Retail Revenue generated. Deficiency occurs when the Total Revenue Requirement in a given year is more than the total Retail Revenue generated.

16) Present Value of Cash Flows: The cash flows that produce either revenue excesses or deficiencies (Column 15) are discounted to a present value using a discount rate equal to the cost of long-term debt established in the most recent general rate proceeding.

If the sum of the present value calculations over the life of the project is zero, or as close to zero as possible, the model demonstrates that the project is “self supporting.” That is, the customer CIAC surcharge is the proper amount of customer contributed capital necessary to support the project at the projected (or actual) level of retail revenues.

Surcharge Rider Rates:

A surcharge as designated will be included in the monthly bills of the following Minnesota geographical areas:

Ely Lake Project 20 Year New Area Surcharge Expires 2034	
Residential	\$25.45
Existing Small Commercial	\$25.45

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential	\$19.16
Small Commercial/Interruptible	\$36.30

Fayal Township—Long Lake Project 20 Year New Area Surcharge Expires 2036	
Residential	\$21.16
Small Commercial/Industrial	\$40.09

<u>Esko Project 25 Year New Area Surcharge</u> <u>Expires 2042</u>	
<u>Residential</u>	<u>\$24.18</u>
<u>Small Commercial/Industrial</u>	<u>\$45.81</u>
<u>Large Commercial/Industrial</u>	<u>\$114.53</u>
<u>Small Volume Interruptible</u>	<u>\$419.95</u>
<u>Large Volume Interruptible</u>	<u>\$470.85</u>

Issued By: Theodore Eidukas
VP – Regulatory Affairs

Submittal Date: August 2, 2016

*Effective with bills issued on and after this date.

*Effective Date: Upon Commission Approval

Proposed Effective Date: ~~June 20, 2016~~ Upon Commission Approval

EXTENSION OF NATURAL GAS SERVICE

3. NEW AREA SURCHARGE RIDER (Continued)

Surcharge Rider Rates (continued):

A surcharge as designated will be included in the monthly bills of the following Minnesota geographical areas:

<u>Balaton Project 25 Year New Area Surcharge</u>	
<u>Expires 2042</u>	
<u>Residential</u>	<u>\$25.14</u>
<u>Small Commercial/Industrial</u>	<u>\$47.64</u>
<u>Large Commercial/Industrial</u>	<u>\$119.10</u>
<u>Small Volume Interruptible</u>	<u>\$419.34</u>
<u>Large Volume Interruptible</u>	<u>\$470.17</u>

Issued By: Theodore Eidukas

*Effective Date: Upon Commission Approval

VP – Regulatory Affairs

Proposed Effective Date: Upon Commission Approval

Submittal Date: August 2, 2016

*Effective with bills issued on and after this date.

EXTENSION OF NATURAL GAS SERVICE3. NATURAL GAS EXTENSION PROJECT RIDERApplicability:

Applicable to bill of all Minnesota Energy Resources' natural gas customers including all Residential, Commercial, Industrial, Interruptible, Joint Service, and Transport customers.

Rider:

The Natural Gas Extension Project (NGEP) Rider is designed to recover up to 33 percent of the costs of construction of new infrastructure and/or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas. Upon approval by the MPUC of an NGEP project for Rider recovery, there shall be included on each customer's monthly bill an NGEP Surcharge relevant to that Project, which shall be calculated by multiplying the monthly applicable billing therms by the approved NGEP Surcharge. The term for recovery of NGEP project costs shall be determined upon approval of the NGEP Project.

Approved NGEP Rider Surcharges and Recovery Periods:

<u>NGEP Project</u>	<u>Surcharge</u>	<u>Recovery Period</u>
<u>Esko Project</u>	<u>\$0.00106/therm</u>	<u>1 year</u>
<u>Balaton Project</u>	<u>\$0.00071/therm</u>	<u>1 year</u>

Minnesota Energy Resources Corporation
Docket No. G011/M-16-____
Exhibit B-PUBLIC
Esko Project Maps

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Exhibit B is Trade Secret in its Entirety.

The nonpublic version of this document contains information that is not generally known to, and not readily ascertainable by, vendors and competitors of MERC, who could obtain economic value from their disclosure. MERC maintains this information as trade secret. Accordingly, the nonpublic version of the New Area Surcharge filing contains data that qualifies as “Trade Secret Data” pursuant to Minnesota Statutes Section 13.37, Subdivision 1(b).

[TRADE SECRET DATA BEGINS.....

**Minnesota Energy Resources New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP**

Time Period (1)	Year (2)	Net Plant				ADIT		Traditional Revenue Requirements					Retail Revenue (14)	Revenue Excess (Deficy.) (15)	PV of Cash Flows (16)
		Gross Plant Investment (3)	Accumulated Depreciation Reserve (4)	Net Plant In Service (5)	Average Net Plant (6)	Average ADIT (7)	Average Rate Base (8)	Allowed Return (9)	Book Deprec. (10)	O&M Expense (11)	Property Tax (12)	Total Rev. Requir. (13)			
0	2016														
1	2017														
2	2018														
3	2019														
4	2020														
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47	2063														
48	2064														

Reference Page E-2 Page E-2 Page E-2 Page E-2 Page E-2 Calculation Page E-10 Page E-2 Page E-9 x Rate per Customer Page E-2 Calculation Page E-9 Calculation Calculation

[TRADE SECRET DATA BEGINS...

MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP
Page E-2

Total Gross Plant Investment
Total CIAC
Total Net Investment

Book Depreciaton Rate

Tax Rate



		Net Plant		ADIT - Property					ADIT - Surcharge Revenues					Total ADIT				
		Gross Plant	Depreciation	Accum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum Tax Deprec.	Book-Tax Deprec.	Acc. Def. Tax	Avg. ADIT	Annual Surcharge Revenue	CIAC	Tax	Cum Tax	Avg ADIT	Property Taxes
0	2016																	
1	2017																	
2	2018																	
3	2019																	
4	2020																	
5	2021																	
6	2022																	
7	2023																	
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46	2062																	
47	2063																	
48	2064																	

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MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP
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All Formulas



Year	Net Plant				ADIT - Property			
	Gross Plant	Depreciation	Acum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum. Tax Deprec.
0	2016							
1	2017							
2	2018							
3	2019							
4	2020							
5	2021							
6	2022							
7	2023							
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47	2063							
48	2064							

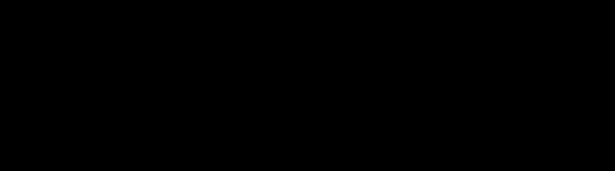
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 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-4



Year	Net Plant					ADIT - Prop		
	Gross Plant	Depreciation	Accum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum Tax Deprec.
0	2016							
1	2017							
2	2018							
3	2019							
4	2020							
5	2021							
6	2022							
7	2023							
8	2024							
9	2025							
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45	2061							
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47	2063							
48	2064							

[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP



Year	Net Plant					Tax Rates	Tax Deprec.	ADIT - Prop
	Gross Plant	Depreciation	Accum. Res.	Net Plant	Avg Net Plant			Cum Tax Deprec.
0	2016							
1	2017							
2	2018							
3	2019							
4	2020							
5	2021							
6	2022							
7	2023							
8	2024							
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46	2062							
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48	2064							

[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-6



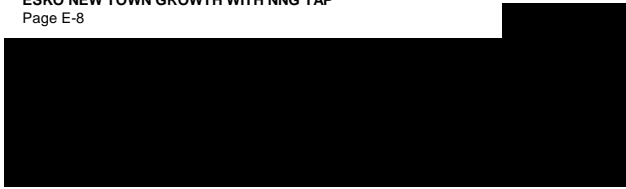
Year	Net Plant				Tax		ADIT - Prop
	Gross Plant	Depreciation	Accum. Res.	Net Plant	Rates	Deprec.	Cum Tax Deprec.
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
6	2022						
7	2023						
8	2024						
9	2025						
10	2026						
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[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-7



Year	Net Plant			Avg Net Plant	Tax Rates	Tax Deprec.	ADIT - Prop Cum Tax Deprec.
	Gross Plant	Depreciation	Accum. Res.				
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
6	2022						
7	2023						
8	2024						
9	2025						
10	2026						
11	2027						
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15	2031						
16	2032						
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26	2042						
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48	2064						

[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-8



Year	Net Plant			Avg Net Plant	Tax Rates	Tax Deprec.	ADIT - Prop Cum Tax Deprec.
	Gross Plant	Depreciation	Accum. Res.				
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
6	2022						
7	2023						
8	2024						
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10	2026						
11	2027						
12	2028						
13	2029						
14	2030						
15	2031						
16	2032						
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47	2063						
48	2064						

[TRADE SECRET DATA BEGINS...]

ESKO NEW TOWN GROWTH WITH NNG TAP

Year	Retail Sales and Surcharge												Summary												Surcharge Info		
	Residential				Commercial - Small				Commercial - Large				Small Volume Interruptible				Large Volume Interruptible				Total Customers	Total Retail Revenue	Tax G-Up on Surcharge Recover	Comh. Total Surcharge Recovery	Avg Com Surcharge Recovery		
	Average Throughput / Customer	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Annual Throughput Customers	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Average Customers	Annual Throughput / Customer	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Average Customers	Annual Throughput / Customer	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Total Customers	Total Retail Revenue	Tax G-Up on Surcharge Recover	Comh. Total Surcharge Recovery	Avg Com Surcharge Recovery				
0	2016																										
1	2017																										
2	2018																										
3	2019																										
4	2020																										
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MERC New Area Surcharge Analysis

ESKO NEW TOWN GROWTH WITH NNG TAP

Page E-10

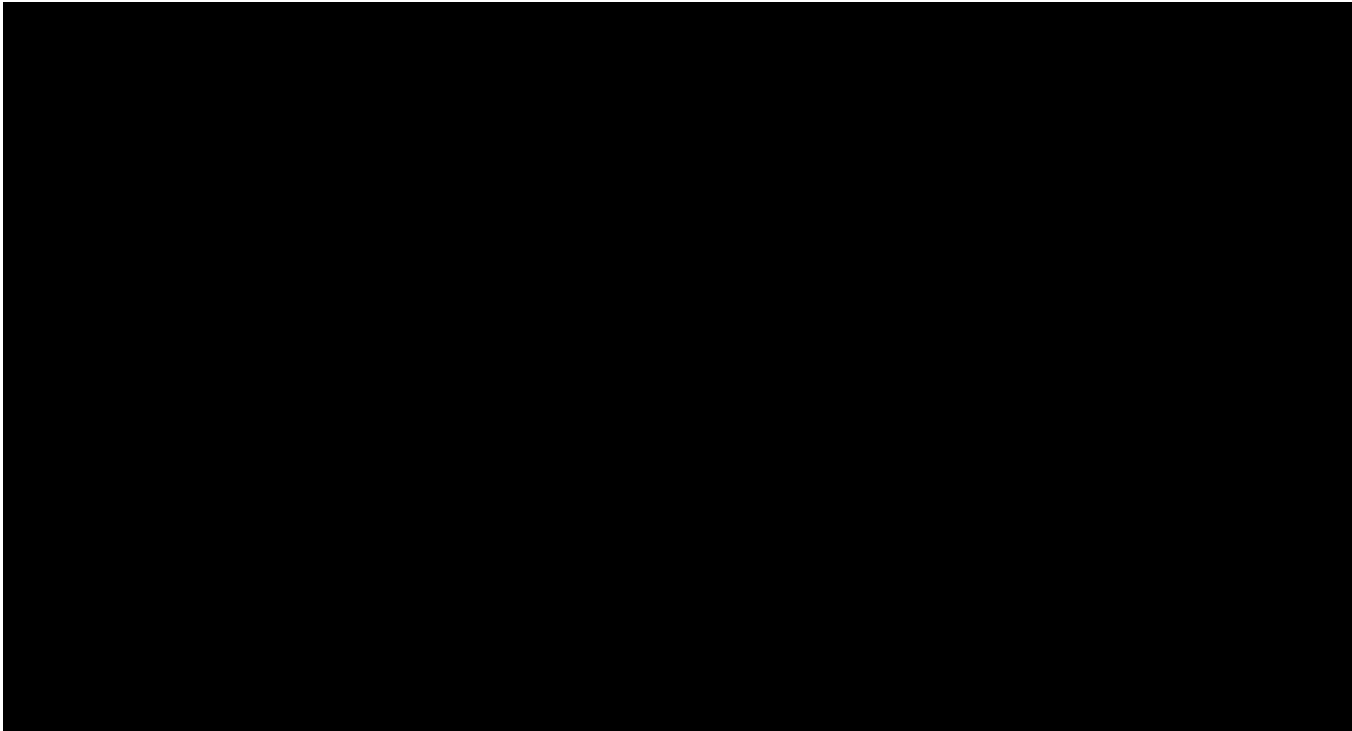
All Formulas

Minnesota Energy Resources Corporation

Docket No. G-011/M-16-____

Exhibit C

Esko Project Workpapers



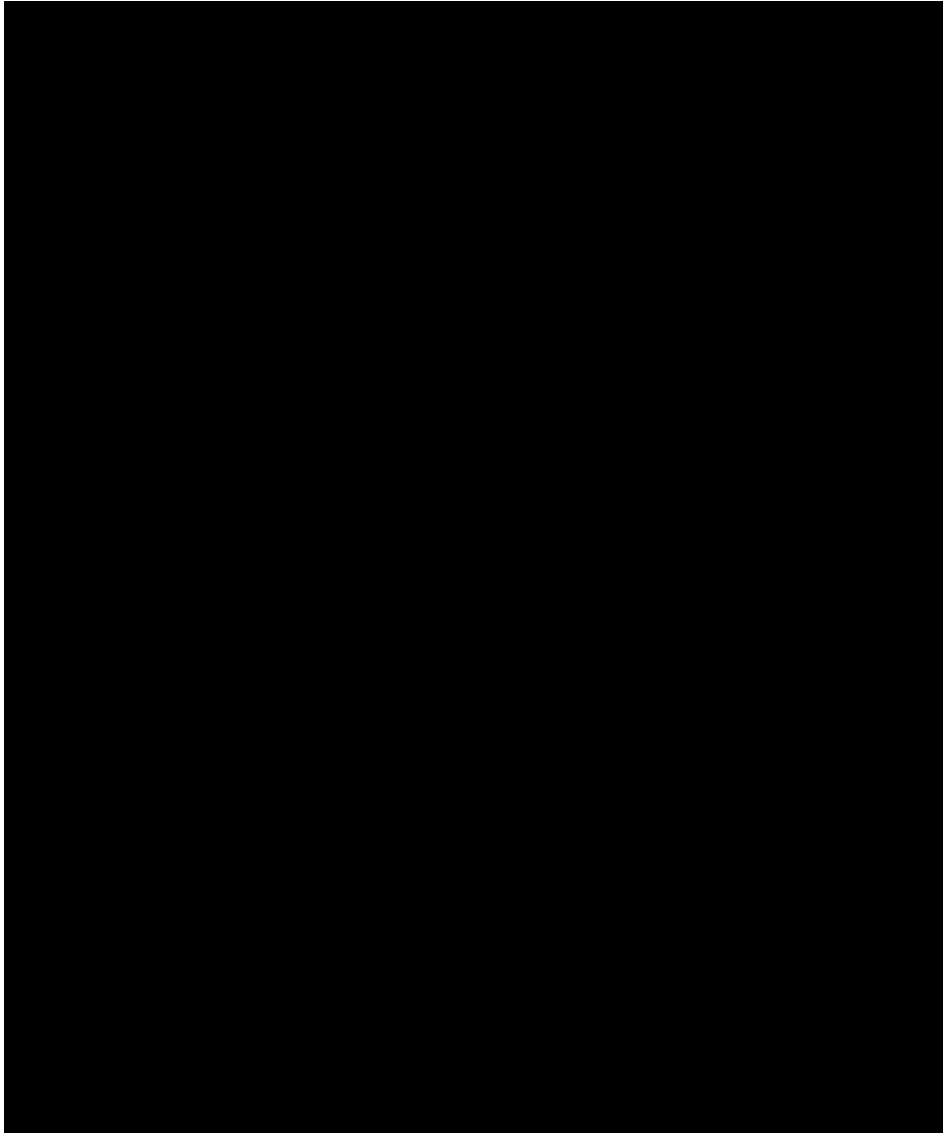
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MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP

Minnesota Energy Resources Corporation
Docket No. G-011/M-16-____
Exhibit C
Esko Project Workpapers

All Formulas

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Minnesota Energy Resources Corporation
Docket No. G-011/M-16-____
Exhibit C
Esko Project Workpapers

ESKO NEW TOWN GROWTH WITH NNG TAP

Assumptions

Construction Costs (infrastructure)
CIAC

Customer's Sign-Up

Year 1 - 2016
Year 2 - 2017
Year 3 - 2018
Year 4 - 2019
Year 5 - 2020
Year 6 - 15 - 2021 through 2036
Total Customer Connects

Annual Throughput

**Total Project
Less Tap Cost
Subtotal**

Capital Cost after Socialization

Tap Cost

Tap Cost after Socialization

Total Socialization

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Esko Tap Cost Amortization Schedule

Minnesota Energy Resources Corporation

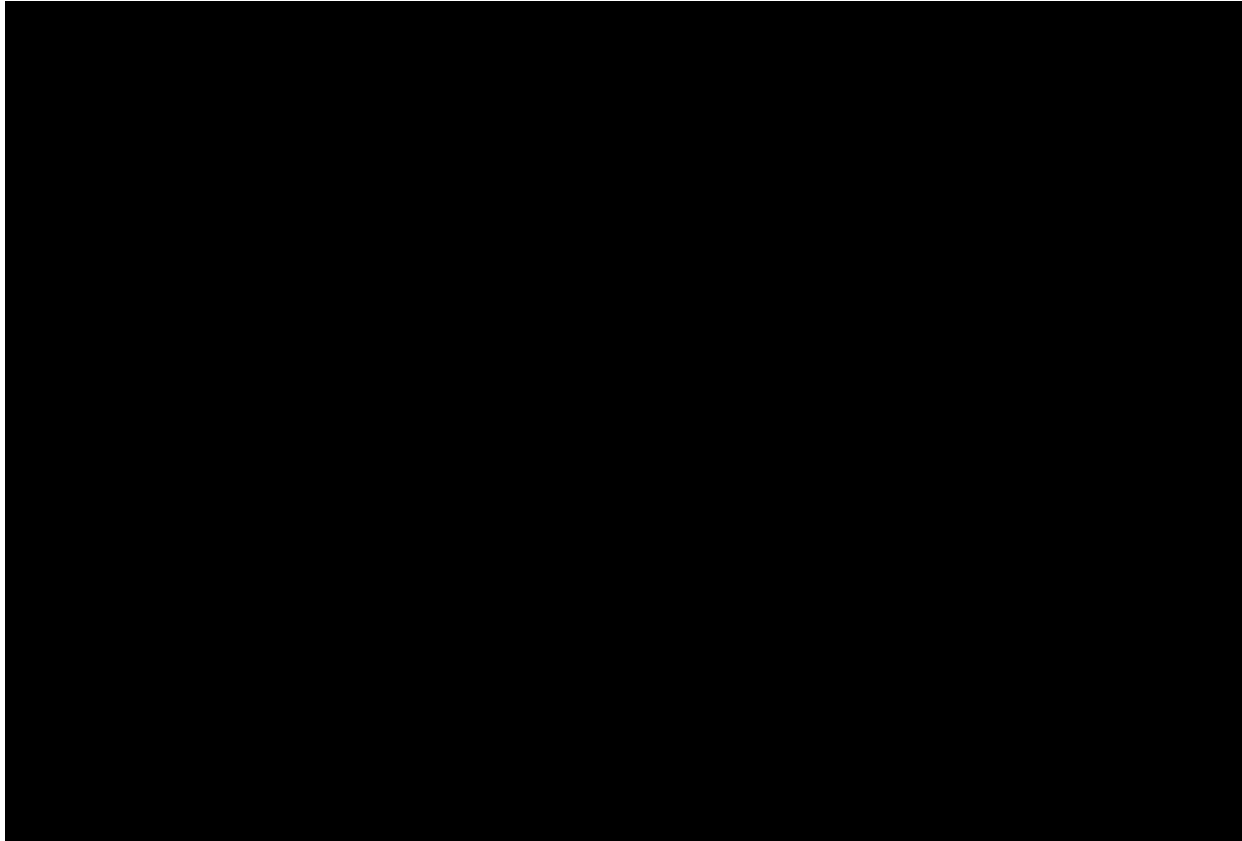
Docket No. G-011/M-16-_____

Exhibit C

Esko Project Workpapers

Tap Cost: █ █

Year	Beg Balance (excl carry cost)	Annual Amortization	Balance (excl carry Cost)	Annual Carry Cost	Annual O&M Expense (Amortization and Carry Cost)
------	----------------------------------	------------------------	------------------------------	----------------------	---



Annual Carry cost is 2.3487%

[TRADE SECRET DATA BEGINS..

Minnesota Energy Resources Corporation

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Exhibit C

Esko Project Workpapers

NGEP Rider Calculation

Total Costs Proposed for Recovery in NGEP Rider

Sales Forecast approved in GR-13-617

Rider Calculation



...TRADE SECRET DATA ENDS]

IMPORTANT INFORMATION ABOUT YOUR NATURAL GAS RATES

For Customers Served in the Esko Township Project Area

An Explanation of Your Natural Gas Rates

On [DATE], the Minnesota Public Utilities Commission (MPUC) approved a New Area Surcharge for Minnesota Energy Resources Corporation (MERC) customers served in the Esko Township Project Area.

A monthly New Area Surcharge has been approved by the Commission as follows:

Esko Project New Area Surcharges	
Residential	\$24.18
Small Commercial and Industrial	\$45.81
Large Commercial and Industrial	\$114.53
Small Volume Interruptible	\$419.95
Large Volume Interruptible	\$470.85

This is the surcharge amount needed to recover the cost of the extension within 25 years after recovery of a portion of the Project costs through a Natural Gas Extension Project Rider under Minn. Stat. § 216B.1638. The surcharge will appear as a line item on your monthly bill and is charged in addition to the regular monthly bill for gas service. Attached for reference are sample bills for the month of January based on average residential and average small commercial customer usage, showing the new area surcharge as a separate line item.

The surcharge will be in effect until the cost to bring natural gas service to your area has been recovered or a maximum of 25 years, whichever occurs first. You will be notified of any change to the New Area Surcharge, including termination of the New Area Surcharge.

The annual cost of the surcharge is as follows:

Residential	\$290.16
Small Commercial and Industrial	\$549.72
Large Commercial and Industrial	\$1374.36
Small Volume Interruptible	\$5,039.40
Large Volume Interruptible	\$5,650.20

The total over the 25-year term of the surcharge is as follows:

Residential	\$7,254
-------------	---------

Minnesota Energy Resources Corporation
Docket No. G-011/M-16-_____
Exhibit D
Proposed Customer Notice

Small Commercial and Industrial	\$13,743
Large Commercial and Industrial	\$34,359
Small Volume Interruptible	\$125,985
Large Volume Interruptible	\$141,255

We thank you for your interest in becoming our customer and utilizing natural gas. We look forward to providing you safe and reliable natural gas service. If you have questions, comments or would like more information, you are invited to contact customer service at 1-800-889-9508.

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval for Recovery of Natural Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Esko Project

Docket No. G-011/M-16-_____

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 2nd of August, 2016, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Initial Petition 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.

Dated this 2nd day of August, 2016.

/s/ Kristin M. Stastny
Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Seth	DeMerritt	ssdemerritt@integrysgroup.com	MERC (Holding)	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W Rosemount, MN 55068	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Brian	Meloy	brian.meloy@stinson.com	Stinson, Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Colleen	Sipiorski	ctsipiorski@integrysgroup.com	Minnesota Energy Resources Corporation	700 North Adams Street Green Bay, WI 54307	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List

[TRADE SECRET DATA BEGINS.....

**Minnesota Energy Resources New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP**

Time Period (1)	Year (2)	Net Plant				ADIT		Traditional Revenue Requirements					Retail Revenue (14)	Revenue Excess (Deficy.) (15)	PV of Cash Flows (16)
		Gross Plant Investment (3)	Accumulated Depreciation Reserve (4)	Net Plant In Service (5)	Average Net Plant (6)	Average ADIT (7)	Average Rate Base (8)	Allowed Return (9)	Book Deprec. (10)	O&M Expense (11)	Property Tax (12)	Total Rev. Requir. (13)			
0	2016														
1	2017														
2	2018														
3	2019														
4	2020														
5	2021														
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48	2064														

Reference Page E-2 Page E-2 Page E-2 Page E-2 Page E-2 Calculation Page E-10 Page E-2 Page E-9 x Rate per Customer Page E-2 Calculation Page E-9 Calculation Calculation

[TRADE SECRET DATA BEGINS...

MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP
Page E-2

Total Gross Plant Investment
Total CIAC
Total Net Investment

Book Depreciation Rate

Tax Rate



		Net Plant		ADIT - Property					ADIT - Surcharge Revenues					Total ADIT				
		Gross Plant	Depreciation	Accum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum Tax Deprec.	Book-Tax Deprec.	Acc. Def. Tax	Avg. ADIT	Annual Surcharge Revenue	CIAC	Tax	Cum Tax	Avg ADIT	Property Taxes
0	2016	[REDACTED]																
1	2017	[REDACTED]																
2	2018	[REDACTED]																
3	2019	[REDACTED]																
4	2020	[REDACTED]																
5	2021	[REDACTED]																
6	2022	[REDACTED]																
7	2023	[REDACTED]																
8	2024	[REDACTED]																
9	2025	[REDACTED]																
10	2026	[REDACTED]																
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12	2028	[REDACTED]																
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34	2050	[REDACTED]																
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44	2060	[REDACTED]																
45	2061	[REDACTED]																
46	2062	[REDACTED]																
47	2063	[REDACTED]																
48	2064	[REDACTED]																

...TRADE SECRET DATA ENDS]

[TRADE SECRET DATA BEGINS.....

MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP
Page E-3

All Formulas



Year	Net Plant				ADIT - Property			
	Gross Plant	Depreciation	Acum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum. Tax Deprec.
0	2016							
1	2017							
2	2018							
3	2019							
4	2020							
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48	2064							

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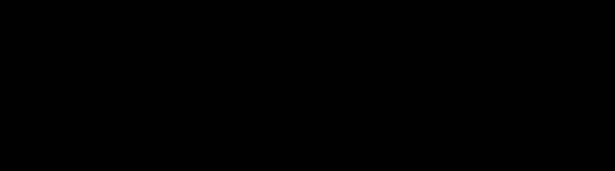
[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-4



Year	Net Plant					ADIT - Prop		
	Gross Plant	Depreciation	Accum. Res.	Net Plant	Avg Net Plant	Tax Rates	Tax Deprec.	Cum Tax Deprec.
0	2016							
1	2017							
2	2018							
3	2019							
4	2020							
5	2021							
6	2022							
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48	2064							

...TRADE SECRET DATA ENDS]

[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP



Year	Net Plant			Avg Net Plant	Tax Rates	Tax Deprec.	ADIT - Prop
	Gross Plant	Depreciation	Accum. Res.				Cum Tax Deprec.
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
6	2022						
7	2023						
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9	2025						
10	2026						
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[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-6



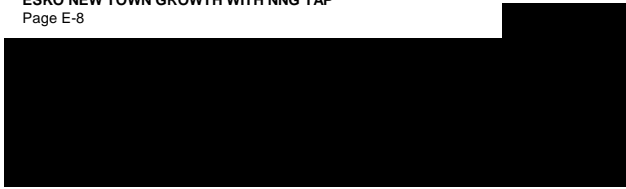
Year	Net Plant				Tax		ADIT - Prop
	Gross Plant	Depreciation	Accum. Res.	Net Plant	Rates	Deprec.	Cum Tax Deprec.
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
6	2022						
7	2023						
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[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-7



Year	Net Plant			Avg Net Plant	Tax Rates	Tax Deprec.	ADIT - Prop Cum Tax Deprec.
	Gross Plant	Depreciation	Accum. Res.				
0	2016						
1	2017						
2	2018						
3	2019						
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5	2021						
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[TRADE SECRET DATA BEGINS.....
 MERC New Area Surcharge Analysis
 ESKO NEW TOWN GROWTH WITH NNG TAP
 Page E-8



Year	Net Plant			Avg Net Plant	Tax Rates	Tax Deprec.	ADIT - Prop Cum Tax Deprec.
	Gross Plant	Depreciation	Accum. Res.				
0	2016						
1	2017						
2	2018						
3	2019						
4	2020						
5	2021						
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48	2064						

[TRADE SECRET DATA BEGINS...]

ESKO NEW TOWN GROWTH WITH NNG TAP

Year	Retail Sales and Surcharge												Summary												Surcharge Info		
	Residential				Commercial - Small				Commercial - Large				Small Volume Interruptible				Large Volume Interruptible				Total Customers	Total Retail Revenue	Tax G-Up on Surcharge Recover	Comh. Total Surcharge Recovery	Avg Com Surcharge Recovery		
	Average Throughput / Customer	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Annual Throughput Customers	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Average Throughput Customers	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Average Throughput Customers	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Average Throughput Customers	Annual Volumetric Margin / Unit	Annual Base Retail Charge / Customer	Monthly Retail Per Revenue Customer	Total Customers	Total Retail Revenue	Tax G-Up on Surcharge Recover	Comh. Total Surcharge Recovery	Avg Com Surcharge Recovery		
0	2016																										
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MERC New Area Surcharge Analysis

ESKO NEW TOWN GROWTH WITH NNG TAP

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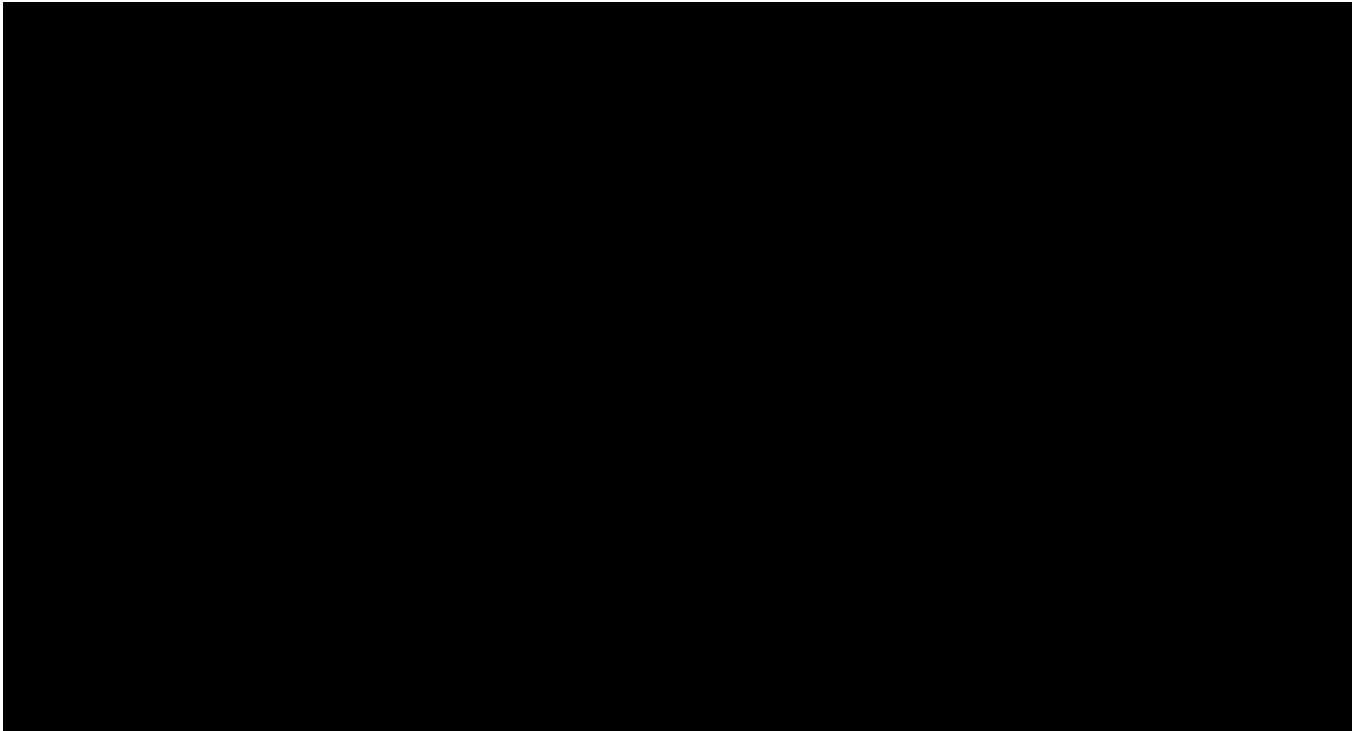
All Formulas

Minnesota Energy Resources Corporation

Docket No. G-011/M-16-____

Exhibit C

Esko Project Workpapers



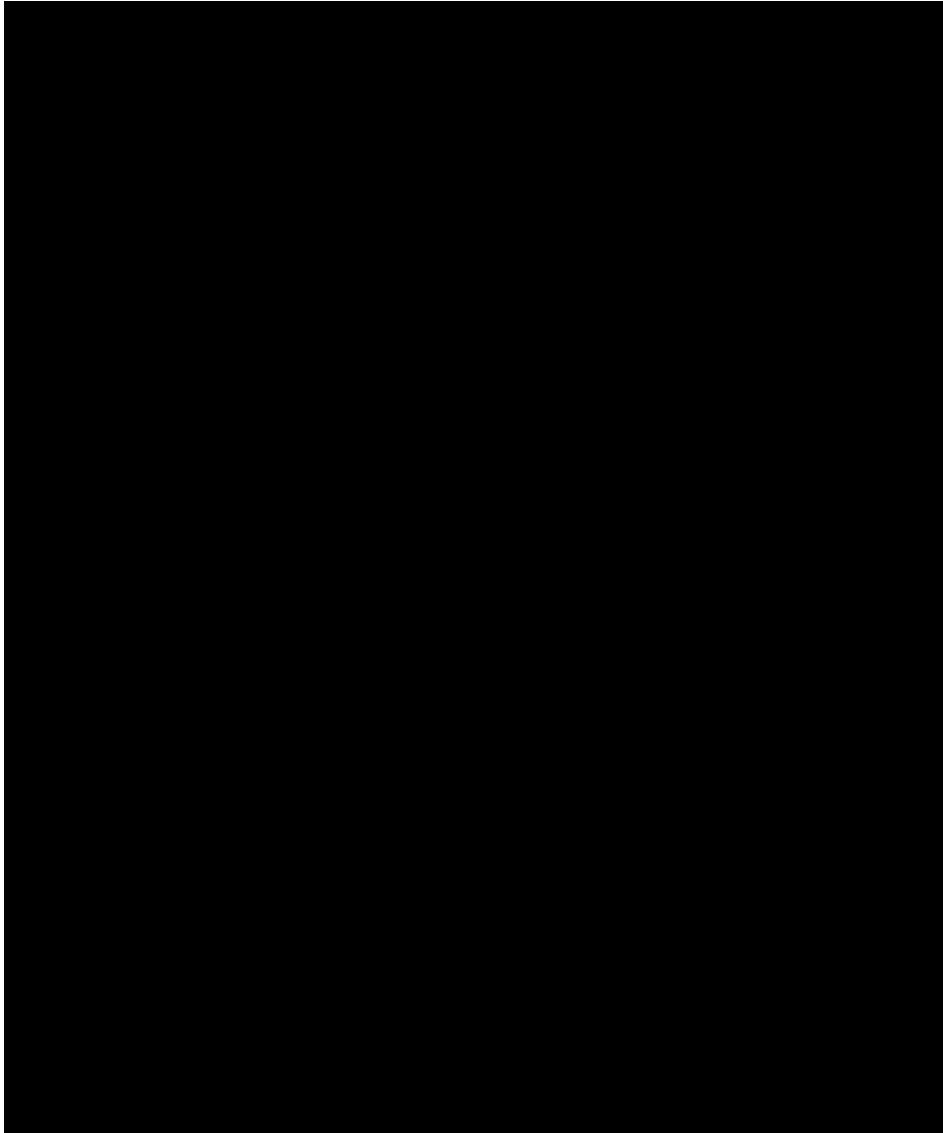
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MERC New Area Surcharge Analysis
ESKO NEW TOWN GROWTH WITH NNG TAP

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All Formulas

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Exhibit C
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ESKO NEW TOWN GROWTH WITH NNG TAP

Assumptions

Construction Costs (infrastructure)
CIAC

Customer's Sign-Up

Year 1 - 2016
Year 2 - 2017
Year 3 - 2018
Year 4 - 2019
Year 5 - 2020
Year 6 - 15 - 2021 through 2036
Total Customer Connects

Annual Throughput

**Total Project
Less Tap Cost
Subtotal**

Capital Cost after Socialization

Tap Cost

Tap Cost after Socialization

Total Socialization

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Esko Tap Cost Amortization Schedule

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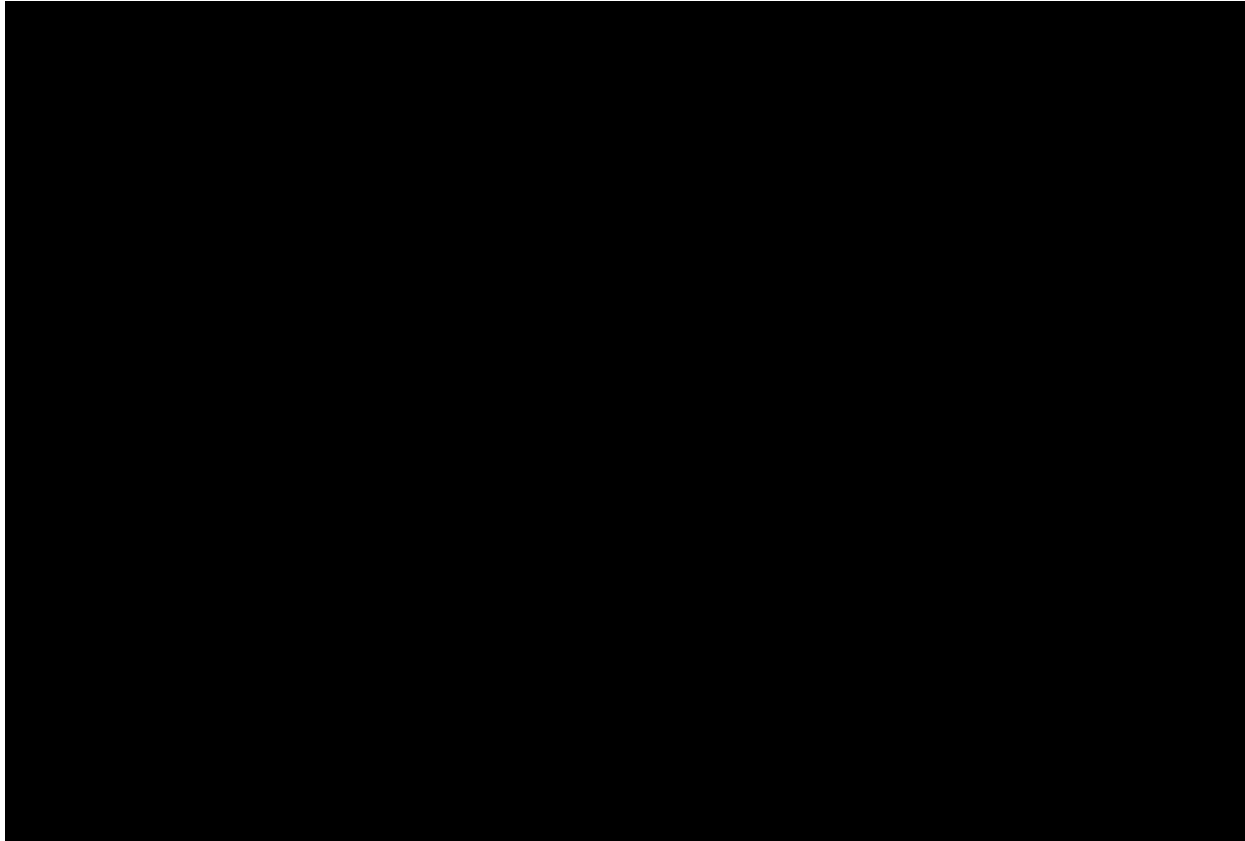
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Tap Cost: █ █

Year	Beg Balance (excl carry cost)	Annual Amortization	Balance (excl carry Cost)	Annual Carry Cost	Annual O&M Expense (Amortization and Carry Cost)
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Annual Carry cost is 2.3487%

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NGEP Rider Calculation

Total Costs Proposed for Recovery in NGEP Rider

Sales Forecast approved in GR-13-617

Rider Calculation



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