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June 29, 2018

VIA ELECTRONIC FILING

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

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

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 Pengilly Project Docket No. G011/M-18-____

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this miscellaneous filing to the Minnesota Public Utilities Commission ("Commission") for approval of a Natural Gas Extension Project Rider ("NGEP Rider") and a New Area Surcharge ("NAS") to recover costs to extend natural gas service to customers located in the community of Pengilly in Itasca County, Minnesota.

MERC originally filed a Petition for Approval of a New Area Surcharge ("NAS") for the Pengilly Project on July 25, 2017, in Docket No. G011/M-17-566 but subsequently requested withdrawal of that Petition on March 12, 2018, stating that "based on the proposed schedule for completion of the necessary interstate pipeline tap upgrade, which is anticipated late 2018, MERC is reevaluating the project boundaries. While MERC intends to proceed with the Pengilly NAS Project, based on recent feedback from the Pengilly town board and potential customers, MERC is evaluating whether the project boundaries can be expanded." The Commission approved the request for withdrawal by Notice and Order dated March 28, 2018.

MERC submits this re-filed Petition for approval of the Pengilly Project based on an expanded project area in response to feedback from the Pengilly town board and residents. In accordance with the Company's March 12, 2018, letter requesting withdrawal, this petition carries forward the Department's recommendations from Docket No. G011/M-17-566.¹ In addition, however, as a result of the expanded scope of the proposed project and the associated increase in costs of the overall project, MERC is requesting approval to recover a portion of project costs through a Natural Gas Extension Project Cost Rider surcharge under Minn. Stat. §216B.1638.

¹ In particular, MERC's Petition requests approval of a 25-year NAS; incorporates the impacts of the federal tax rate change; and calculates carrying costs on the interstate pipeline tap upgrades based on the long-term cost of debt over a 25-year period.

Mr. Daniel P. Wolf
June 29, 2018
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The nonpublic version of this filing contains trade secret information. Specifically, the capital costs, 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 this filing contains data that qualifies as "Trade Secret Data" pursuant to Minnesota Statutes Section 13.37, Subdivision 1(b). Public and nonpublic versions of Exhibits B and C are being filed separately.

A copy of this miscellaneous filing has been served on the Department of Commerce, Division of Energy Resources and 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 regarding the information in this Petition. Thank you for your attention to this matter.

Sincerely,

/s/ Amber S. Lee

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

Enclosures
cc: Service List

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange
Dan Lipschultz
Matt Schuerger
Katie Sieben
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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

Docket No. G-011/M-18-_____

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 located in the community of Pengilly in Itasca County, 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 a 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 Pengilly Project area, over a period of twenty-five years, including carrying costs at MERC’s currently authorized long-term cost of debt.

PUBLIC DOCUMENT--TRADE SECRET DATA HAS BEEN EXCISED

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange
Dan Lipschultz
Matt Schuerger
Katie Sieben
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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

Docket No. G-011/M-18-_____

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

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...** _____
_____ **...TRADE SECRET DATA ENDS]** to extend natural gas service to
customers in the community of Pengilly in Itasca County in northern Minnesota through a
Natural Gas Extension Project Rider under Minn. Stat. § 216B.1638 and for approval of a 25-
year New Area Surcharge ("NAS") to finance the remainder of project costs. The Pengilly
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 Pengilly Project
area, upgrades to connect to the Northern Natural Gas ("NNG") interstate pipeline are also
necessary. MERC proposes to include **[TRADE SECRET DATA BEGINS...** _____
...TRADE SECRET DATA ENDS] of the NNG project costs in the proposed NGEP rider and to
recover the remainder of those costs as operations and maintenance ("O&M") expense 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 long-term cost of debt on the amortized NNG costs. This proposal for carrying costs equal to MERC's approved long term cost of debt is consistent with the recommendations of the Department of Commerce, Division of Energy Resources (the "Department") in Docket No. G011/M-17-566.³

This filing includes the following:

- One paragraph summary of the filing in accordance with Minn. R. 7829.1300, subp. 1;
- Petition for Approval of Natural Gas Extension Project Rider Surcharge and New Area Surcharge for the Pengilly Project;
- Exhibit A Clean and redlined proposed Tariff Sheets;
- Exhibit B Map of the Pengilly Project Area (public and nonpublic versions, filed separately);
- Exhibit C Proposed NGEP and NAS Surcharge Workpapers and Assumptions (public and nonpublic versions, filed separately); and
- Exhibit D Proposed Customer Notice.⁴

To date, MERC has received approval from the Commission for five NAS projects. Over time, the Company, the Department, and Commission staff have proposed refinements to the NAS model and approach for setting NAS charges and MERC continues to refine its approach to ensure the projects are successful and the surcharges are fair and reasonable.

With MERC's first NAS project, the Ely Lake Project, the Company proposed to apply the same surcharge as calculated for the Residential customer class across all customer classes.⁵ The

³ *Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a Tariff Revision and a New Area Surcharge for the Pengilly Project*, Docket No. G011/M-17-566, Response Comments of the Minnesota Department of Commerce, Division of Energy Resources at 2 (Nov. 16, 2017).

⁴ Exhibit D references inclusion of sample bills for the month of January showing the new area surcharge as a separate line item. MERC proposes to include these sample bills as a compliance filing on approval of the final New Area Surcharges for the Pengilly Project. As discussed in more detail below, MERC also proposes to include a bill message for all MERC customers regarding the NGEP Rider surcharge on the first month the surcharge appears on customers' bills.

⁵ See *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval of a Tariff Revision and a New*

Commission, acknowledging that “in the past, the Commission has required that surcharge rates for customer classes reflect existing rate design,” rejected that approach, ultimately approving only a surcharge for Residential and existing Small Commercial and Industrial (“C&I”) customers.⁶ Since that first NAS project, MERC has refined its calculation of NAS charges. In the recently approved Esko and Balaton NAS Projects, MERC calculated the proposed surcharges based on the customer charge allocation and received approval of surcharges for all customer classes.⁷ Similarly, the Commission approved MERC’s petitions to establish additional customer class NAS charges for the Detroit Lakes—Long Lake Project, Ely Lake Project, and Fayal Project based on the customer charge allocation methodology.⁸ Based on the experience the Company has gained, calculation of NAS charges based on the current customer charge allocations are fair and reflect existing rate design. Additionally, the Company has discovered that approval for all customer classes prior to the commencement of a project is essential because circumstances frequently change and new customer participation benefits all participants in an NAS project. Therefore, with this filing, MERC is seeking approval to establish NAS charges for all customer classes for the proposed Pengilly Project.

Area Surcharge for the Ely Lake Project, Docket No. G011/M-14-524, Petition for Approval to Modify the New Area Surcharge Tariff and to Establish a New Area Surcharge for the Ely Lake Project at 3 (June 20, 2014).

⁶ *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval of a Tariff Revision and a New Area Surcharge for the Ely Lake Project*, Docket No. G011/M-14-524, Order Approving New Area Surcharge and Proposed Tariff Modification at 3 (Sept. 5, 2014).

⁷ See *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval for Recovery of Nat. Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Balaton Project*, Docket No. G011/M-16-654, Petition for Approval of Natural Gas Extension Project Rider and New Area Surcharge at 11 (Aug. 2, 2016); *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval for Recovery of Nat. Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Esko Project*, Docket No. G011/M-16-655, Petition for Approval of Natural Gas Extension Project Rider and New Area Surcharge at 11 (Aug. 2, 2016).

⁸ *In the Matter of Petitions of Minnesota Energy Resources Corporation for Approval of a Tariff Revision and Additional New Area Surcharge Customer Classes for the Ely Lake Project* (Docket No. G011/M-17-211), *Detroit Lakes-Long Lake Project* (Docket No. G011/M-17-210), and *Fayal Township Long Lake Project* (Docket No. G011/M-17-212), Order Approving New Area Surcharge and Requiring Compliance Filing (Sept. 18, 2017).

This Petition represents the third Petition in which MERC has requested approval to recover a portion of an extension project through a Natural Gas Extension Project (“NGEP”) Rider surcharge, along with a NAS. In Docket Nos. G011/M-16-654 and G011/M-16-655, MERC proposed to recover a portion of project costs for the Esko and Balaton Projects through an NGEP Rider surcharge. Ultimately, however, cost recovery for those projects was approved pursuant to a settlement reached between MERC and the Department, based on recommendations from Commission staff.⁹ While the settlement did not include the NGEP Rider recovery, the Commission expressly concluded in its Order Approving cost Recovery for New Area Surcharge Tariffs for Balaton and Esko Projects, that “the Balaton and Esko natural gas extension projects will serve an inadequately served or un-served area in Minnesota,” and that the project costs “are reasonable and will be prudently incurred.” The Commission further concluded:

The settlement proposal ensures full recovery for the two projects for MERC, but without use of the new NGEP rider. While the Commission recognizes that recovery of the Balaton and Esko costs over and above the 25-year NAS tariff amount would have been appropriate under the NGEP rider, the Company’s proposal requested recovery of the remaining costs over a one-year period. The settlement proposal provides MERC with recovery of all of its additional costs, but over a longer period of time through base rates set in MERC’s next rate case, thus spreading out the ratepayer impact of the projects’ costs.

Having reviewed the parties’ settlement proposal, the Commission believes that, in this instance, recovery of the costs using the 25-year NAS in addition to deferral of the remaining amount for recovery through base rates in MERC’s next rate case is reasonable, giving the Company more certainty as to cost

⁹ *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval for Recovery of Nat. Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Balaton Project*, Docket No. G011/M-16-654 and *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval for Recovery of Nat. Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Esko Project*, Docket No. G011/M-16-655, Order Approving Cost Recovery for New Area Surcharge Tariffs for Balaton and Esko Projects (Feb. 9, 2017).

recovery and increasing MERC ratepayers' rates by a smaller amount spread over a longer period.¹⁰

In order to address the concern raised with MERC's proposed Esko and Balaton project cost recovery that the recovery of the NGEF portion of costs would occur over a single year, MERC has revised its methodology for calculating the proposed NGEF Rider Surcharge to calculate the surcharge based on the net present value of the portion of costs to be collected. The result of this methodology is to reduce the overall amount collected by the Company over a single year to reflect the time value of money, reducing the impact to customers and recognizing the value of collecting the costs for ratepayers in a single year rather than over the useful life of the project.

I. NATURAL GAS EXTENSION PROJECT RIDER

Minn. Stat. § 216B.1638, the NGEF Rider 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 NGEF 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.¹¹

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.”¹² Subdivision 2 sets forth the requirements for a petition seeking approval of an NGEF Rider and Subdivision 3 of the

¹⁰ Docket Nos. G011/M-16-654 and G011/M-16-655, Order Approving Cost Recovery for New Area Surcharge Tariffs for Balaton and Esko Projects at 4 (Feb. 9, 2017).

¹¹ 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).

¹² Minn. Stat. § 216B.1638, subd. 3(d).

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 NGEP is provided below. 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 NGEP Rider include a description of the NGEP, 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.

The Pengilly Project is designed to extend natural gas service to a currently unserved area in the community of Pengilly in Itasca County, Minnesota, by connecting to the NNG interstate pipeline system [TRADE SECRET DATA BEGINS... [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. NNG will be upgrading an existing town border station to allow connection of the Pengilly Project to the interstate pipeline. 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] ... TRADE SECRET DATA ENDS] will participate in the Project by converting to natural gas service. As discussed in greater detail below, while MERC is not currently projecting any customers taking service within the [TRADE

SECRET DATA BEGINS... [REDACTED]

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

B. Proposed Construction Schedule

Minn. Stat. § 216B.1638, subd. 2(b)(2) requires that a Petition for approval of a Natural Gas Extension Project Rider include the project's construction schedule. Pending Commission review and approval, MERC is proposing to commence construction on the Pengilly Project during the regular 2018 construction season (beginning with the NNG tap upgrades) and to complete construction during 2019 so that customers who sign up will receive natural gas service by the beginning of the 2019-2020 heating season. Completion of the interstate pipeline upgrades are necessary before MERC can complete construction of the extension project.

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. The NGEP Statute's definition of a "contribution in aid of construction" extends beyond just contributions from developers or local governments, and includes "a monetary contribution, paid by a developer or local unit of government to a utility providing natural gas service to a community receiving that service as the result of a natural gas extension project, that reduces or offsets the difference between the total revenue requirement of the project and the revenue generated from the customers served by the project."¹³ The term "Developer" is defined under the NGEP Statute as "a developer of the project or a person that owns or will own the property

¹³ Minn. Stat. §216B.1638, subd 1 (b).

served by the project.”¹⁴ In this case, the customers who will be served by the proposed Pengilly Project will be making the contributions in aid of construction via the monthly NAS charges.

MERC utilized the process outlined in Attachment C to determine the proposed New Area Surcharges and NGEPRider surcharge rate.

D. Amount of Revenue Deficiency and Proposed Allocation

Minn. Stat. § 216B.1638, subd. 2(b)(6) requires that a Petition for an NGEPRider 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 an NGEPRider plus any contributions in aid of construction paid by these customers, fall short of the total revenue requirement of the NGEPRider.” With respect to the Pengilly Project, MERC calculated the “revenue deficiency” by first determining the difference between the total revenue requirement and the amount of projected revenues to be collected 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 NGEPRider, **[TRADE SECRET DATA**

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

MERC proposes to recover **[TRADE SECRET DATA BEGINS...** [REDACTED]
[REDACTED] **...TRADE**

¹⁴ Minn. Stat. §216B.1638, subd 1 (c).

SECRET DATA ENDS] of the Pengilly Project under the NGEF 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 approve rider recover of up to “33 percent of costs of a natural gas extension project,” because the proposed NGEF rider recovery is equal to **[TRADE SECRET DATA BEGINS... [REDACTED] [REDACTED]...TRADE SECRET DATA ENDS]**. In accordance with Minn. Stat. § 216B.1638, subd. 3(d), MERC’s NGEF Rider Surcharge 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 O&M costs.¹⁵ In addition to MERC’s capital investments to extend natural gas to the Pengilly Project area, which have been estimated at **[TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS]**, upgrades to the NNG interstate pipeline to connect to this area are also necessary. The anticipated price of the NNG upgrades are **[TRADE SECRET DATA BEGINS... [REDACTED]... TRADE SECRET DATA ENDS]**. MERC proposes to include **[TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS]** of the NNG project costs in the proposed NGEF 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 long-term cost of debt on the amortized NNG costs. As set forth in the NGEF Rider Statute, inclusion of project O&M costs such as the O&M expense related to the upgrades of the NNG tap are recoverable through the NGEF Rider.¹⁶

¹⁵ 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 NNG’s upgrades to connect the Pengilly Project to the interstate pipeline.

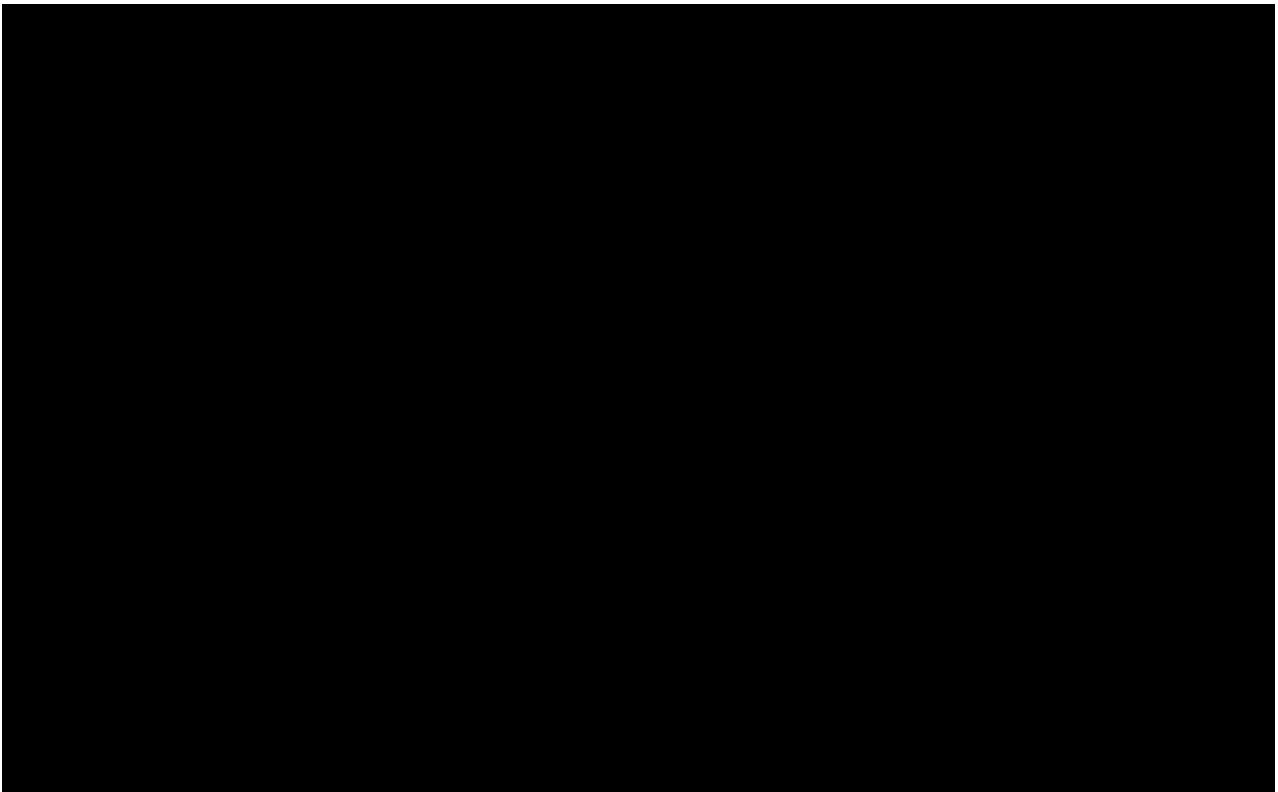
¹⁶ “The revenue deficiency from a natural gas extension project recoverable through a rider under this section *must include* . . . any incremental operation and maintenance costs.” Minn. Stat. § 216B.1638, subd. 3 (d) (emphasis added).

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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. To calculate the proposed per-therm charges, MERC calculated the net present value of proposed NGEP Rider Costs by the Minnesota jurisdictional sales forecast approved in Docket No. G011/GR-15-736. The result of this methodology is to reduce the overall amount collected by the Company over a single year to reflect the time value of money, reducing the impact to customers and recognizing the value of collecting the costs for ratepayers in a single year rather than over the useful life of the project.

Attachment C provides the calculation of the proposed per-therm charge using the net present value calculation, as proposed, as well as a comparison to the surcharge assuming collection of the entire NGEP-proposed costs based on actual dollars, and over the useful life of the Project:

[TRADE SECRET DATA BEGINS...



...TRADE SECRET DATA ENDS]

MERC's proposed methodology differs from what the Company had proposed with respect to the Esko and Balaton Projects in an effort to address the concerns raised by Commission staff regarding recovery of the proposed project costs over a single year.¹⁷

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 Pengilly Project costs to be recovered via the NGEF 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 NNG interstate pipeline upgrades, and proposal to recover **[TRADE SECRET DATA BEGINS...**

...TRADE SECRET DATA ENDS] on a net present value basis through the rider, MERC is projecting a per-therm charge for recovery of Pengilly Project costs of \$0.00013 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 NGEF Rider. For the Pengilly Project costs, MERC proposes that the NGEF Rider terminate after one year. MERC has calculated a projected per-therm rider rate of \$0.00013 per therm for recovery of the proposed **[TRADE SECRET DATA BEGINS...**

...TRADE SECRET DATA ENDS] of costs recovered on a net present value basis as discussed above, over the course of one year. Because the bill impact of the proposed rider

¹⁷ As discussed in the Commission's Order Approving Cost Recovery for New Area Surcharge Tariffs for Balaton and Esko Projects, "While the Commission recognizes that recovery of the Balaton and Esko costs over and above the 25-year NAS tariff amount would have been appropriate under the NGEF rider, the Company's proposal requested recovery of the remaining costs over a one-year period."

would be relatively small pursuant to a one-year recovery period, MERC believes such a recovery period is reasonable and appropriate. Within 3 months after the completion of the Project and the 12-month term of the NGEF 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 Pengilly Project is anticipated to add approximately **[TRADE SECRET DATA BEGINS... [REDACTED] ... TRADE SECRET DATA ENDS]** within the Pengilly 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 community of Pengilly is a growing community, this Project will help to open up future growth opportunities to expand natural gas service to even more customers.

II. PROPOSED NEW AREA SURCHARGE FOR THE PENGILLY 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;
- D. The Company's proposed customer notice; and
- E. All pertinent contract demand entitlement change requests as soon as the required information is ascertained.

This filing for the Pengilly Project is MERC's fifth filing under the New Area Surcharge tariff approved by the Commission. 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, after incorporating collection of the anticipated NGEPRider surcharge revenue proposed in 2020. The required filing information is provided below:

A. Updated Surcharge Tariff Sheets

The proposed clean and redline tariff sheets reflecting the proposed Pengilly Project New Area Surcharge are included as Exhibit A to this filing. Exhibit A also includes proposed tariff amendments for implementation of the proposed NGEPRider, 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 (public and nonpublic versions filed separately).

C. A Surcharge Rate for Each Customer Class

The following class surcharges are proposed for the Pengilly Project. MERC currently anticipates that the customer base in the Pengilly Project area will include **[TRADE SECRET DATA BEGINS... [REDACTED]....TRADE SECRET DATA ENDS]**. MERC is requesting that the Commission approve NAS rates for all customer classes, as indicated in Exhibit A to this filing. While MERC is not currently projecting any customers taking

service within the [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS] economic conditions could drive a customer to switch from firm Commercial/Industrial service to Interruptible service and/or from SVI service to LVI service. In the event additional customers in these classes participate 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.

MERC has calculated the proposed surcharges for the Pengilly Project 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.

Pengilly Project New Area Surcharges	
Residential	\$24.70
Small Commercial and Industrial	\$46.82
Large Commercial and Industrial	\$117.07
Small Volume Interruptible	\$429.23
Large Volume Interruptible	\$481.27

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 NGEPRider 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 Pengilly area commences in 2019, the surcharge would terminate in 2044. 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 Notice

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 on compliance after approval of the proposed New Area Surcharge. Additionally, MERC proposes to include a bill message for all MERC customers regarding the NGEP Rider on the first month the rider surcharge appears on customers' bills as follows:

Effective [DATE], a Natural Gas Extension Project Rider surcharge ("NGEP Surcharge") has been included on your bill for the Pengilly Natural Gas Extension Project. The NGEP 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 NGEP Surcharge rate for the Pengilly Project will be \$0.00013 per therm and will appear as a line item on your bill labeled "Natural Gas Extension Project – Pengilly."

E. Contract Demand Entitlement Change Requests

At this time, no demand entitlement changes are anticipated to be required because the demand needs of the Pengilly Project customers will be served off existing demand contracts. In the event additional demand entitlements are required, MERC will include those in its demand entitlement filing.

F. Revenue Impacts

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

PUBLIC DOCUMENT--TRADE SECRET DATA HAS BEEN EXCISED

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 Pengilly Project in its annual reporting on New Area Surcharge projects.

The proposed New Area Surcharge is in the public interest. 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.

III. CONCLUSION

MERC respectfully requests approval for recovery of **[TRADE SECRET DATA**

BEGINS...

...TRADE SECRET DATA ENDS] for the Pengilly Project through a Natural Gas Extension Rider, for approval of a New Area Surcharge for the proposed Pengilly 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 long-term cost of debt.

The Pengilly Project is designed to extend natural gas service to an unserved area and the proposed project costs are reasonable and will be prudently incurred. As a result, the Commission should approve MERC's proposal for NGEP Rider recovery under Minn. Stat. § 216B.1638. Additionally, the proposed New Area Surcharges are 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. MERC respectfully requests approval of a New Area Surcharge for the proposed Pengilly Project in order to allow MERC to complete construction and begin providing service to customers in this area.

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

DATED: June 29, 2018

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

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange
Dan Lipschultz
Matt Schuerger
Katie Sieben
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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

Docket No. G-011/M-18-_____

**FILING OF PETITION FOR APPROVAL OF NATURAL GAS EXTENSION PROJECT COST
RIDER SURCHARGE AND TO ESTABLISH A NEW AREA SURCHARGE**

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 Department of Commerce, Division of Energy Resources and 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 general 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
2685 145th Street West
Rosemount, MN 55068
(651) 322-8901

**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: June 29, 2018

Proposed Effective Date: Upon Commission Approval

MERC respectfully requests that the Commission rule on this filing so that construction of the distribution extension for the Pengilly Project may begin. Completion of the interstate pipeline upgrades are necessary before MERC can complete construction of the extension project. MERC anticipates the interstate pipeline upgrades will be complete in 2018.

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. Minn. R. 7829.1400, subp. 1, 4.

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



Amber S. Lee
Regulatory and Legislative Affairs Manager
amber.lee@wecenergygroup.com
2685 145th Street West
Rosemount, MN 55068
(651) 322-8965

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

Pursuant to Minnesota Statutes section 216B.1638 and Minnesota Rules part 7829.1300, MERC” seeks approval to recover [TRADE SECRET DATA BEGINS... ██████████

MERC's approved long term cost of debt is consistent with the recommendations of the Department in Docket No. G011/M-17-566.²

IV. Miscellaneous Information

Pursuant to Minnesota Rule 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
2685 145th Street West
Rosemount, MN 55068
(651) 322-8965
amber.lee@wecenergygroup.com

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

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

DATED: June 29, 2018

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

² *Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a Tariff Revision and a New Area Surcharge for the Pengilly Project*, Docket No. G011/M-17-566, Response Comments of the Minnesota Department of Commerce, Division of Energy Resources at 2 (Nov. 16, 2017).

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
Small Commercial/Industrial	\$25.45
Large Commercial/Industrial	\$120.55
Small Volume Interruptible	\$442.03
Large Volume Interruptible	\$495.61

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential	\$19.16
Small Commercial/Industrial	\$36.30
Large Commercial/Industrial	\$90.76
Small Volume Interruptible	\$332.78
Large Volume Interruptible	\$373.12

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:

**Fayal Township—Long Lake Project
20 Year New Area Surcharge
Expires 2036**

Residential	\$21.16
Small Commercial/Industrial	\$40.09
Large Commercial/Industrial	\$100.23
Small Volume Interruptible	\$367.49
Large Volume Interruptible	\$412.04

**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

**Balaton Project 25 Year New Area Surcharge
Expires 2042**

Residential	\$24.14
Small Commercial/Industrial	\$45.75
Large Commercial/Industrial	\$114.37
Small Volume Interruptible	\$419.34
Large Volume Interruptible	\$470.17

**Pengilly Project 25 Year New Area Surcharge
Expires 2044**

Residential	\$24.70
Small Commercial/Industrial	\$46.82
Large Commercial/Industrial	\$117.07
Small Volume Interruptible	\$429.23
Large Volume Interruptible	\$481.27

Issued By: Theodore Eidukas
VP – Regulatory Affairs

Submittal Date: June 29, 2018

*Effective with bills issued on and after this date.

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

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER

1. APPLICABILITY

Applicable to bills for natural gas service provided under the Company's retail and transportation rate schedules as approved by the MPUC.

2. RIDER

The Natural Gas Extension Project (NGEP) rider statute (Minn. Stat. § 216B.1638) permits a public utility to petition the Minnesota Public Utilities Commission (MPUC) outside of a general rate case for a rider to be billed to all of the utility's customers, including transport customers, to recover the revenue deficiency from a qualifying natural gas extension project. Qualifying Projects are natural gas service extensions to unserved or inadequately served areas where the cost would otherwise have been prohibitive under the Company's present rate and service extension policy.

Nothing in this rate schedule shall obligate the Company to extend natural gas service to any area. Rather, the NGEP Rider will be used and implemented at the Company's discretion upon receipt of MPUC approval.

3. RATE

The NGEP Rider rate for any customer class will be the MPUC-approved rate for that customer class. Such NGEP Rider rates may be volumetric, a flat fee, or some other form of approved recovery.

The MPUC may not approve an NGEP Rider that allows a utility to recover more than 33 percent of the costs of a Qualifying Project.

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (continued)

4. DEFINITIONS

- A. Revenue Deficiency: 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 contribution in aid of construction paid by those customers, fall short of the total revenue requirement of the natural gas extension project.

A standard model will be used to calculate the Revenue Deficiency related to Qualifying Project(s) for the filing period. The Revenue Deficiency will be adjusted for retail revenues (actual and/or expected) generated from incremental customers served by the Qualifying Project(s) in the one-year NGEP Rider period.

- B. NGEP Tracker: An accounting process used to accumulate any difference between the actual revenue requirement impact of Qualifying Projects and the actual revenues received through the NGEP Rider.
- C. NGEP Rider Reconciliation: The balance at the end of each calendar year in the NGEP Rider Tracker, either positive or negative, is subject to review and approval by the MPUC in an annual NGEP Rider Reconciliation filing. The approved balance is to be applied as an adjustment to the ongoing NGEP Rider rate.
- D. Qualifying Project: A project eligible for recovery via the NGEP Rider under Minn. Stat. § 216B.1638 is one used to extend or expand service to an unserved or inadequately served area, further defined as an area in Minnesota lacking adequate natural gas pipeline infrastructure to meet the demand of existing or potential end use customers.
- E. Recoverable NGEP Expenses: The annual revenue requirement for costs associated with the Qualifying Project(s) includes the currently authorized rate of return on capital investment, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs relative to the Qualifying Project(s).

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (continued)

5. NGEp RATES

A. Currently Authorized NGEp Rate

A separate NGEp Rate may be calculated for each customer class or the same rate may be applied across all or a portion of customer classes, as approved by the MPUC. The NGEp rate shall be calculated to recover the NGEp Revenue Deficiency over the period approved by the MPUC.

Approved NGEp Rider Surcharges and recovery periods:

NGEP Project	Surcharge	Recovery Period
Pengilly Project	\$0.00013	1 year

B. Adjustment to NGEp Tracker with Changes in Base Rates

Whenever the Company implements changes in base rates as the result of a final Commission order in a general rate case, the Company shall simultaneously adjust the NGEp Tracker to remove all costs that have been included in the approved base rates.

Issued By: Theodore Eidukas
VP – Regulatory Affairs

Submittal Date: June 29, 2018

*Effective with bills issued on and after this date.

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

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
Small Commercial/Industrial	\$25.45
Large Commercial/Industrial	\$120.55
Small Volume Interruptible	\$442.03
Large Volume Interruptible	\$495.61

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential	\$19.16
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Small Volume Interruptible	\$332.78
Large Volume Interruptible	\$373.12

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:

**Fayal Township—Long Lake Project
20 Year New Area Surcharge
Expires 2036**

Residential	\$21.16
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Expires 2042**

Residential	\$24.18
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**Balaton Project 25 Year New Area Surcharge
Expires 2042**

Residential	\$24.14
Small Commercial/Industrial	\$45.75
Large Commercial/Industrial	\$114.37
Small Volume Interruptible	\$419.34
Large Volume Interruptible	\$470.17

**Pengilly Project 25 Year New Area Surcharge
Expires 2044**

<u>Residential</u>	<u>\$24.70</u>
<u>Small Commercial/Industrial</u>	<u>\$46.82</u>
<u>Large Commercial/Industrial</u>	<u>\$117.07</u>
<u>Small Volume Interruptible</u>	<u>\$429.23</u>
<u>Large Volume Interruptible</u>	<u>\$481.27</u>

Issued By: Theodore Eidukas
VP – Regulatory Affairs

*Effective Date: September 20, 2017 Upon Commission Approval

Proposed Effective Date: Upon Commission Approval September 20, 2017

Submittal Date: September 20, 2017 June 29, 2018

*Effective with bills issued on and after this date.

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER

1. APPLICABILITY

Applicable to bills for natural gas service provided under the Company's retail and transportation rate schedules as approved by the MPUC.

2. RIDER

The Natural Gas Extension Project (NGEP) rider statute (Minn. Stat. § 216B.1638) permits a public utility to petition the Minnesota Public Utilities Commission (MPUC) outside of a general rate case for a rider to be billed to all of the utility's customers, including transport customers, to recover the revenue deficiency from a qualifying natural gas extension project. Qualifying Projects are natural gas service extensions to unserved or inadequately served areas where the cost would otherwise have been prohibitive under the Company's present rate and service extension policy.

Nothing in this rate schedule shall obligate the Company to extend natural gas service to any area. Rather, the NGEP Rider will be used and implemented at the Company's discretion upon receipt of MPUC approval.

3. RATE

The NGEP Rider rate for any customer class will be the MPUC-approved rate for that customer class. Such NGEP Rider rates may be volumetric, a flat fee, or some other form of approved recovery.

The MPUC may not approve an NGEP Rider that allows a utility to recover more than 33 percent of the costs of a Qualifying Project.

Issued By: Theodore Eidukas

*Effective Date: Upon Commission Approval

VP – Regulatory Affairs

Proposed Effective Date: Upon Commission Approval

Submittal Date: June 29, 2018

*Effective with bills issued on and after this date.

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (continued)4. DEFINITIONS

A. Revenue Deficiency: 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 contribution in aid of construction paid by those customers, fall short of the total revenue requirement of the natural gas extension project.

A standard model will be used to calculate the Revenue Deficiency related to Qualifying Project(s) for the filing period. The Revenue Deficiency will be adjusted for retail revenues (actual and/or expected) generated from incremental customers served by the Qualifying Project(s) in the one-year NGEP Rider period.

B. NGEP Tracker: An accounting process used to accumulate any difference between the actual revenue requirement impact of Qualifying Projects and the actual revenues received through the NGEP Rider.

C. NGEP Rider Reconciliation: The balance at the end of each calendar year in the NGEP Rider Tracker, either positive or negative, is subject to review and approval by the MPUC in an annual NGEP Rider Reconciliation filing. The approved balance is to be applied as an adjustment to the ongoing NGEP Rider rate.

D. Qualifying Project: A project eligible for recovery via the NGEP Rider under Minn. Stat. § 216B.1638 is one used to extend or expand service to an unserved or inadequately served area, further defined as an area in Minnesota lacking adequate natural gas pipeline infrastructure to meet the demand of existing or potential end use customers.

E. Recoverable NGEP Expenses: The annual revenue requirement for costs associated with the Qualifying Project(s) includes the currently authorized rate of return on capital investment, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs relative to the Qualifying Project(s).

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (continued)

5. NGEp RATES

A. Currently Authorized NGEp Rate

A separate NGEp Rate may be calculated for each customer class or the same rate may be applied across all or a portion of customer classes, as approved by the MPUC. The NGEp rate shall be calculated to recover the NGEp Revenue Deficiency over the period approved by the MPUC.

Approved NGEp Rider Surcharges and recovery periods:

<u>NGEP Project</u>	<u>Surcharge</u>	<u>Recovery Period</u>
<u>Pengilly Project</u>	<u>\$0.00013</u>	<u>1 year</u>

B. Adjustment to NGEp Tracker with Changes in Base Rates

Whenever the Company implements changes in base rates as the result of a final Commission order in a general rate case, the Company shall simultaneously adjust the NGEp Tracker to remove all costs that have been included in the approved base rates.

Issued By: Theodore Eidukas

VP – Regulatory Affairs

*Effective Date: Upon Commission Approval

Proposed Effective Date: Upon Commission Approval

Submittal Date: June 29, 2018

*Effective with bills issued on and after this date.

IMPORTANT INFORMATION ABOUT YOUR NATURAL GAS RATES

For Customers Served in the Pengilly 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 Pengilly Project Area.

MERC is required to recover the cost of extending new gas service from the new customers who will be served by it. A monthly New Area Surcharge has been approved by the Commission as follows:

Residential	\$24.70/month
Small Commercial/Industrial	\$46.82/month
Large Commercial/Industrial	\$117.07/month
Small Volume Interruptible	\$429.23/month
Large Volume Interruptible	\$481.27/month

This is the surcharge amount needed to recover the cost of the extension within 25 years. 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 customer usage for each customer class proposed, 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	\$296.40/year
Small Commercial and Industrial	\$561.84/year
Large Commercial and Industrial	\$1,404.84/year
Small Volume Interruptible	\$5,150.76/year
Large Volume Interruptible	\$5,775.24/year

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

Minnesota Energy Resources Corporation
Pengilly New Area Surcharge Filing
Exhibit D

Residential	\$7,410
Small Commercial and Industrial	\$14,046
Large Commercial and Industrial	\$35,121
Small Volume Interruptible	\$128,769
Large Volume Interruptible	\$144,381

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 of Recovery of Natural Gas Extension Project Costs through a Rider and for Approval of a New Area Surcharge for the Pengilly Project

Docket No G011/M-18-____

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 29th of June, 2018, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed 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 29th day of June, 2018.

/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	OFF_SL_17-566_M-17-566
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-566_M-17-566
Seth	DeMerritt	ssdemerritt@integrysgroup.com	MERC (Holding)	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	Yes	OFF_SL_17-566_M-17-566
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_17-566_M-17-566
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_17-566_M-17-566
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_17-566_M-17-566
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2685 145th St W Rosemount, MN 55068	Electronic Service	Yes	OFF_SL_17-566_M-17-566
Brian	Meloy	brian.meloy@stinson.com	Stinson, Leonard, Street LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-566_M-17-566
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-566_M-17-566
Colleen	Sipiorski	ctsipiorski@integrysgroup.com	Minnesota Energy Resources Corporation	700 North Adams Street Green Bay, WI 54307	Electronic Service	Yes	OFF_SL_17-566_M-17-566

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_17-566_M-17-566
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_17-566_M-17-566
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_17-566_M-17-566

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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