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February 13, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
Metro Square – Suite 350
212 7th Place East
St. Paul, MN 55101-2147

Re: Petition of Minnesota Energy Resources Corporation to Modify Its Main and Service Extension Model and Amend Its Extension Tariffs

Docket No. G011/M-15-___

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this petition to the Minnesota Public Utilities Commission ("Commission") for approval to revise and update the model it uses to determine whether customer contributions in aid of construction ("CIAC") are required to support a natural gas extension project and to amend its tariffs to remove the step-by-step extension model details. MERC proposes to replace the step-by-step inputs and assumptions with a general description of the new model.

MERC's existing tariffs refer to the main and service extension calculations as a Feasibility Study. In proposing to revise this model, because the customer ultimately determines what is financially feasible to them, MERC proposes to re-name the revised model the "Customer Extension Model." This petition will refer to the existing model as the "Feasibility Model" and to the proposed revised model as the "Customer Extension Model."

MERC is requesting approval to modify the existing model to provide a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders. With the increased demand for new services, MERC determined it was time to review its existing model and create a new model based on today's environment. The proposed Customer Extension Model follows a similar methodology to MERC's New Area Surcharge ("NAS") model recently approved by the Commission.

The proposed Customer Extension Model is included as Attachment A, filed as a separate document. The nonpublic version of Attachment A contains trade secret information. Specifically, Attachment A contains pricing information that is not generally known to, and not readily ascertainable by competitors of MERC, who could obtain economic value from its

disclosure. MERC maintains this information as trade secret. The nonpublic version of Attachment A contains data that qualifies as "Trade Secret Data" pursuant to Minnesota Statutes Section 13.37 Subdivision 1(b).

Additionally, MERC is requesting approval to remove the step-by-step model inputs and assumptions from its tariffs. Prior to MERC's acquisition of Aquila's Minnesota natural gas operations in 2006, the Commission required Aquila to publish its complete extension model in its tariffs because the Commission determined Aquila had not properly charged customers in accordance with an extension policy that ensured customers were appropriately charged for extensions that were not cost justified. Publication of the model detail is no longer appropriate because MERC has consistently demonstrated compliance with its extension policies and applicable tariffs. No other natural gas utility operating in Minnesota is required to include its extension model in its tariffs and the inclusion of this model in its publicly available tariffs places MERC at a competitive disadvantage.

A summary of the filing has been served on all parties on MERC's general service list. Please contact me at 612-340-2881 if you have any questions regarding this matter.

Sincerely,

/s/ Michael J. Ahern

Michael J. Ahern

Enclosures

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

Petition of Minnesota Energy Resources Corporation to Modify Its Main and Service Extension Model and Amend Its Extension Tariffs	Docket No. G011/M-15-__

PETITION OF MINNESOTA ENERGY RESOURCES CORPORATION TO MODIFY ITS MAIN AND SERVICE EXTENSION MODEL AND AMEND ITS EXTENSION TARIFFS

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this Petition for approval to: (1) revise and update the model it uses to determine whether customer contributions in aid of construction ("CIAC") are required to support a natural gas extension project to provide a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders and to make the model consistent with MERC's approved New Area Surcharge ("NAS") model; and (2) amend its tariffs to remove the step-by-step input and assumption details used by the Company in conducting extensions analysis and add a general description of the revised extension model.

MERC's existing tariffs refer to the main and service extension calculations as a Feasibility Study. MERC proposes to re-name the revised model the "Customer Extension Model" because the customer ultimately determines what is financially feasible to them. This Petition will refer to the existing model as the "Feasibility Model" and to the proposed revised model as the "Customer Extension Model."

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 – Antitrust and Utilities 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 the Utility

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

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

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

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

Date of Filing: February 13, 2015

Proposed Effective Date: Upon Commission Approval. MERC will be ready to implement the proposed Customer Extension Model for the 2015 construction season beginning May 2015.

D. Statute Controlling Schedule for Processing the Filing

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 and Title of Utility Employee Responsible for the Filing

Amber S. Lee
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8965

If additional information is required, please contact me at (612) 340-2881.

DATED: February 13, 2015

Respectfully Submitted,

DORSEY & WHITNEY LLP

By /s/ Michael J. Ahern
Michael J. Ahern
Suite 1500, 50 South Sixth Street
Minneapolis, MN 55402-1498
Telephone: (612) 340-2600

Attorney for Minnesota Energy Resources Corporation

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

Petition of Minnesota Energy Resources Corporation to Modify Its Main and Service Extension Customer Extension Model and Amend Its Customer Extension Tariffs	Docket No. G011/M-15-___

SUMMARY OF FILING

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this Petition for approval to: (1) revise and update the model it uses to determine whether customer contributions in aid of construction ("CIAC") are required to support a natural gas extension project to provide a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders and to make the model consistent with MERC's approved New Area Surcharge ("NAS") model; and (2) amend its tariffs to remove the step-by-step input and assumption details used by the Company in conducting extensions analysis and add a general description of the revised extension model.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
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Petition of Minnesota Energy Resources Corporation to Modify Its Main and Service Extension Model and Amend Its Extension Tariffs	Docket No. G011/M-15-___

PETITION OF MINNESOTA ENERGY RESOURCES CORPORATION TO MODIFY ITS MAIN AND SERVICE EXTENSION MODEL AND AMEND ITS EXTENSION TARIFFS

I. INTRODUCTION

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this Petition for approval to revise and update the model it uses to determine whether customer contributions in aid of construction ("CIAC") are required to support a natural gas extension project to provide a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders and to make the model consistent with MERC's approved New Area Surcharge ("NAS") model. MERC also proposes to amend its tariffs to replace the extension model step-by-step inputs and assumptions with a general description of the revised extension model.[1]

MERC is requesting approval to modify its extension model to provide a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders. With the increased demand for new services, attributable in part to the propane shortage of 2014 and low natural gas prices, MERC determined it was time to review its existing

[1] MERC's existing tariffs refer to the main and service extension calculations as a Feasibility Study. MERC proposes to re-name the revised model the "Customer Extension Model" because the customer ultimately determines what is financially feasible to them. This Petition will refer to the existing model as the "Feasibility Model" and to the proposed revised model as the "Customer Extension Model."

Feasibility Model and create a new model based on today's environment. The proposed Customer Extension Model follows a similar methodology to MERC's NAS feasibility model, recently approved by the Commission in September 2014.[2]

Additionally, MERC is requesting approval to remove the step-by-step model inputs and assumptions from its tariffs. Prior to MERC's acquisition of Aquila's Minnesota natural gas operations in 2006, the Commission required Aquila to publish its complete Feasibility Model in its tariffs on file with the Commission because the Commission determined Aquila had not properly charged customers in accordance with an extension policy that ensured customers were appropriately charged for extensions that were not cost justified.[3] As a condition of approval of MERC's acquisition, MERC was required to adopt Aquila's tariffs, including the existing Feasibility Model.[4] Those tariffs expressly required that the Feasibility Model be set forth in an exhibit to the tariffs and that any change to the model be submitted for approval:

> In determining whether the expenditure is economically feasible, the Company shall take into consideration the total cost of serving the applicant including, but not limited to, the total investment, including mains and service related investment, the annual volume of gas to be sold, operating and maintaining expenses, margin, the acceptable level of return on the required investment, and potential for additional sales through the new facility. ***The specific uniform factors used by the Company in conducting***

[2] *In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a New Area Surcharge Rider*, ORDER APPROVING NEW AREA SURCHARGE WITH MODIFICATIONS AND REQUIRING REVISED TARIFF SHEET, Docket No. G-007,011/M-11-1045 (July 26, 2012); *In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Tariff Revision and a New Area Surcharge for the Ely Lake Project*, ORDER APPROVING NEW AREA SURCHARGE AND PROPOSED TARIFF MODIFICATION, Docket No. G011/M-14-524 (September 5, 2014).

[3] *In the Matter of a Petition by Peoples Natural Gas Company and Northern Minnesota Utilities, Divisions of UtiliCorp United Inc., for Authority to Increase Natural Gas Rates in Minnesota and to Consolidate the Two Utilities*, Docket No. G-007,011/GR-00-951, ORDER ACCEPTING AND ADOPTING SETTLEMENT (July 29, 2003) (requiring Aquila to work with Commission staff and the Department to develop an appropriate exhibit in their tariff that would enable the main and service extension feasibility model to be replicated using current inputs); ORDER ACCEPTING COMPLIANCE FILING AS MODIFIED AND REQUIRING FURTHER FILING (November 21, 2003) (requiring Aquila to file a modified exhibit for its tariff book on main and service extension feasibility models correcting a number of deficiencies that were identified).

[4] *In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation*, Docket No. G-007,011/M-05-1676, ORDER APPROVING SALE SUBJECT TO CONDITIONS (June 1, 2006).

> ***its feasibility analysis along with a description of the current feasibility model are contained as an exhibit to the General Rules, Regulations, Terms and Conditions portion of this tariff. The Company will not use other uniform factors or change the feasibility model without filing an amended exhibit.*** Company will apply the general principal that the rendering of service to the applicant shall not result in undue burden on the other customer. If a contribution in aid of construction is required, it will be based on the results of the feasibility model.[5]

As discussed in greater detail below, this treatment is no longer appropriate because MERC has consistently demonstrated compliance with the Commission's extension policies and has properly applied the Feasibility Model as set forth in MERC's tariffs. No other natural gas utility operating in Minnesota is required to include its extension model in its tariffs and MERC's inclusion of this model in its publicly available tariffs places MERC at a competitive disadvantage without justification. Therefore, MERC requests that the Commission lift the requirement that the details of the model be published in MERC's tariff and approve this petition to amend the tariff sheets to remove the step-by-step model.

II. PROPOSED AMENDMENTS TO MERC'S FEASIBILITY MODEL

A. Need for Amended Customer Extension Model

MERC currently uses an outmoded extension model the Company inherited from its predecessor to ascertain a project's feasibility and determine the required CIAC for main and service extensions.[6] This model was developed for a company with investment criteria different than MERC's. Moreover, MERC's current model places an overwhelming majority of the costs of installing a new line on the new customer. Because the new customer is the principal beneficiary of the new line, it is understandable that the new customer will pay a significant portion of the new line's cost. But the new customer is not the sole beneficiary of line extensions. Additional customers allow for broader spreading of fixed costs, which benefits the

[5] MERC 2nd Revised Sheet No. 9.05 (emphasis added).

[6] *See* MERC Tariff Sheet Nos. 9.07-9.13.

existing customer base. Rate base and earnings growth benefit the Company and shareholders. As a result of recent increases to the demand for new services, MERC determined it was time to update and revise its extension model and assumptions to address current costs and conditions.

Accordingly, the proposed revised Customer Extension Model allows shareholders and existing customers to share in the cost of line extensions. Mindful of the Commission's concerns that existing customers should not subsidize growth, the new model only allows for a sharing of the burden if existing customers benefit from the extension. If the new line extension is not a net revenue generator over the course of the line's life, the Company recovers the deficiency from the new customer through a CIAC. Public and nonpublic versions of the proposed Customer Extension Model are submitted as Attachment A to this filing.

B. Description of Proposed Revisions to Feasibility Model for Extensions of Company Mains and Services

1. Method

For residential customers where both a main and service extension is required and for all extensions to serve commercial and industrial customers, regardless of whether a main extension is involved, MERC is proposing to use a standard Customer Extension Model that is designed to calculate the total revenue requirement for each year of the average service life of the plant installed. The Customer Extension Model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists. For residential customers, the proposed Customer Extension Model incorporates the cost for a 75-foot service line, with any excess footage billed after the installation not to exceed $5.00 per foot. Customers who need only service line extensions will still receive the 75-foot allowance, even though the Customer Extension Model will not be applicable. As with other residential customers, excess footage is capped at $5.00 per foot and charged after installation.

The Net Present Value ("NPV") of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the cost of long-term debt authorized in the most recent general rate case proceeding. A total NPV of approximately zero ($0) will show a project is self-supporting. Any costs in excess of the NPV will be recovered through a CIAC.

2. Assumption and Input Descriptions

As included in the proposed revised tariff sheets (Tariff Sheet Nos. 9.00-9.13 (included as Attachment B to this filing)), the following terms describe the contents and general operation of the revised Customer Extension Model. The terms and contents proposed below correspond directly to the terms and contents approved in MERC's NAS model.

1) Time Period: Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.

2) Year.

3) Gross Plant Investment: Cumulative plant in service at the end of the year reduced by the net present value of revenues in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.

4) Accumulated Depreciation Reserve: Book depreciation for the current year plus all previous years.

5) Net Plant In Service: The difference between Gross Plant Investment and Accumulated Depreciation Reserve

6) Average Net Plant.

7) Average Accumulated Deferred Income Taxes: The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on contribution in aid of construction. At the end of the service life of the plant installed the balance of ADIT will be zero.

8) Average Rate Base: Total of Average Net Plant plus Average Accumulated Deferred Income Taxes.

9) Allowed Return: Allowed Rate of Return as determined in the Company's most recent general rate proceeding.

   The Allowed Rate of Return multiplied by the Average Rate Base equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment. The depreciation factor used is based on a weighted average of depreciation rates used in Company's most recent general rate proceeding.

11) O & M Expense: In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses. The calculation is average customers multiplied by incremental cost per customer.

12) Property Tax: In any year shall be a factor of the gross plant investment (after contribution-in-aid-of-construction). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.

13) Total Revenue Requirement: Total of Allowed Return, Book Depreciation, O & M Expenses, and Property Tax

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement and the amount of Retail Revenue. 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 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.

3. Specific Inputs and Additional Changes

As part of revising the existing Feasibility Model, MERC proposes to change how the Company calculates incremental operation and maintenance ("O&M") expenses. Finally, MERC plans to make other, non-substantive changes to its extension tariffs.

a) Incremental O & M Calculation

The revised Customer Extension Model changes how the incremental O&M expense is calculated per customer. To calculate incremental O&M in a given year, the total O&M expense

is divided by the average number of customers in that year. Total O&M expense is comprised of customer accounts expenses, which include expenses related to supervision, meter reading, records collection and retention, uncollectible accounts, disputed bills, and miscellaneous expenses. Total O&M expense also includes customer service expenses for supervision, customer assistance, and advertising. The remaining components of the O&M expense are line locating and emergency call out expenses. The O&M expense along with the allowed rate of return, book depreciation, and property tax, drive the total revenue requirement. The total revenue requirement, in turn, is used to determine the total revenue excess or deficiency of an extension.

b) Customer Footage Allowance

The revised Customer Extension Model will adopt a cost-based approach and provide a fixed value allowance, integrated into the model itself. These cost allowances will be updated periodically pursuant to the Company's cost evaluations.

MERC believes that this approach is more equitable than the approach under MERC's existing Feasibility Model. With the current footage allowance, customers' avoided-costs vary widely based on the length of the extension. Under the new Customer Extension Model, all new customers will receive the same cost-savings.

c) Miscellaneous Changes

In addition to the substantive changes described above, MERC plans to make several changes that do not affect how the CIAC is calculated. The amended tariffs propose to change the name of the model from "feasibility study" to "Customer Extension Model." MERC believes the new name more accurately reflects the model's purpose. MERC also proposes to make one grammatical change, changing "one time charge" to "one-time charge" in describing extra charges required when a thawing device is needed to excavate bell holes. Finally, rather than stating that the Company will "conduct" the Customer Feasibility Model, the tariff has been

revised to state that the Company will "complete" the model. MERC does not intend for any of these changes to affect the way the Company charges customers for extensions.

In summary, MERC believes the proposed revised Customer Extension Model will allow for a more equitable distribution of costs and benefits between new customers, existing customers, and shareholders and should therefore be approved.

III. REMOVING STEP-BY-STEP EXTENSION MODEL FROM MERC'S TARIFFS

The Commission originally required the inclusion of the step-by-step extension model in what are now MERC's tariffs as a part of a rate case settlement with MERC's predecessor, Aquila. In 2000, Aquila[7] filed a rate case, stating that one of the main drivers for the rate case was the need to recover investment costs Aquila had incurred in new and upgraded gas mains and service lines.[8] The Department of Commerce ("Department") recommended rejecting Aquila's inclusion of a significant proportion of these investment expenses in rate base because, according to the Department, Aquila had failed to comply with its tariffs on charging customers for extensions.[9] The Department also contended that Aquila's expansions were not economically justified, and that Aquila's existing ratepayers were subsidizing Aquila's expansion.[10] The Commission was particularly concerned about these allegations given the documented history of natural gas utilities waiving extension fees for new customers in a manner that forced existing ratepayers to subsidize uneconomic competition between utilities.[11] Therefore, the Commission ultimately ordered Aquila to work with the Commission and Department to develop a detailed exhibit to be filed with Aquila's tariffs, documenting the step-

[7] Although the ownership of Peoples and NMU changed during the course of the rate case, for brevity all references are to Aquila.

[8] *In Matter of Petition by Peoples and NMU for Authority to Increase Natural Gas Rates in Minnesota*, ORDER MODIFYING AND ACCEPTING SETTLEMENT, at 1, 12 Docket No. G-007, 011/GR-00-951 (May 11, 2001).

[9] *Id.* at 12.

[10] *Id.*

[11] *See generally In the Matter of an Inquiry into Competition Between Gas Utilities in Minnesota*, ORDER TERMINATING INVESTIGATION AND CLOSING DOCKET, at 1-3 Docket No. G-999/CI-90-563 (March 31, 1995).

by-step feasibility model to be used for determining whether extensions were economically justified or required a customer CIAC.[12] As a condition of approval of MERC's acquisition of Aquila, MERC was required to adopt Aquila's tariffs, including the existing feasibility model.[13] The exhibit is currently in MERC's tariffs beginning at 2nd Revised Sheet No. 9.07.

Prior to MERC's acquisition of Aquila's operations, requiring Aquila to publish its Feasibility Model in its tariffs made sense as a means of ensuring that Aquila complied with the Feasibility Model after a history of noncompliance. Further, MERC accepted the wholesale adoption of the existing Aquila tariffs as a condition for approval of MERC's acquisition of Aquila's operations. However, MERC is now controlled by different owners and has not had similar problems complying with the Feasibility Model. With the exception of de minimis disallowances, MERC has had many years of documented compliance with the Commission's extension policy and the Feasibility Model.[14] Continuing to punish MERC for the wrongdoing of its predecessor is unreasonable. Additionally, continued inclusion of the step-by-step model in MERC's tariffs puts MERC at a competitive disadvantage vis-à-vis other natural gas utilities, which are not obligated to make their models publicly available. Knowledge of MERC's extension model may allow MERC's competitors to anticipate MERC's charges for line extensions and undercut MERC's fee. Such a result is contrary to the Commission's historic concerns about the fair, efficient extension of service.[15] Therefore, MERC requests that the

[12] *In Matter of Petition by Peoples and NMU for Authority to Increase Natural Gas Rates in Minnesota*, ORDER ACCEPTING AND ADOPTING SETTLEMENT at 12, Docket No. G-007, 011/GR-00-951 (July 29, 2003).

[13] *In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation*, Docket No. G-007,011/M-05-1676, ORDER APPROVING SALE SUBJECT TO CONDITIONS (June 1, 2006).

[14] *See In Matter of a Petition by Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-011/GR-13-617, FINDINGS OF FACT, SUMMARY OF PUBLIC TESTIMONY, CONCLUSIONS OF LAW AND RECOMMENDATION at 77-79 (August 12, 2014); *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota* Docket No. G-007, 011/GR-10-977.

[15] *See In the Matter of an Inquiry into Competition Between Gas Utilities in Minnesota*, ORDER TERMINATING INVESTIGATION AND CLOSING DOCKET, Docket No. G-999/CI-90-563 (March 31, 1995).

Commission allow the Company to remove the detailed operation of its extension model from its tariffs.

MERC proposes to instead include within the Company's tariffs a general description of the methodology and inputs used in its revised Customer Extension Model. These descriptions are similar to the information provided in MERC's NAS tariff. Attached to this filing as Attachment B are clean and redline versions of MERC's tariffs reflecting the removal of the step-by-step model, as well as the proposed revisions discussed in detail above.

IV. CONCLUSION

Based on the foregoing, MERC respectfully requests that the Commission approve the proposed revised Customer Extension Model for purposes of determining the appropriate CIAC on projects going forward. MERC also requests that the Commission approve the Company's request to amend its extensions tariffs to remove the step-by-step extension model as discussed herein.

If additional information is required, please contact Michael J. Ahern at (612) 340-2881.

DATED: February 13, 2015

Respectfully Submitted,

DORSEY & WHITNEY LLP

By /s/ Michael J. Ahern

Michael J. Ahern
Suite 1500, 50 South Sixth Street
Minneapolis, MN 55402-1498
Telephone: (612) 340-2881

Attorney for Minnesota Energy Resources Corporation

Attachment B

Clean and Redline Tariff Amendments

Redline Tariffs

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES

A. Applications and Permits

1. Applications for natural gas service are required for the services set forth hereunder. Connection of load subject to application without proper approval will be cause for disconnection or suspension of service pursuant to Designation 9.A.3 of these Rules and Regulations.

(a) New residential service except as exempted in A.2 below.

(b) Residential heating conversion from another fuel or expansion of peak heating requirements except as exempted in A.2 below.

(c) Commercial service, new and expanded requirements except as exempted in A.2 below.

(d) Industrial service - new and expanded requirements.

2. Applications for natural gas service are not required for:

(a) Additions to base load appliances for clothes drying, water heating and cooking.

(b) Additions of less than 50,000 BTU/hour in domestic heating loads over the heating load approved and connected to Company's distribution system as of May 10, 1977.

3. Applicants for service must agree to comply with all provisions of the main and service line extension policy described in Section IX.2 of this tariff.

4. All applications will be reviewed by Company's management and shall be processed in the following manner:

(a) Approved.

(b) Denied.

(c) Retained for future use, subject to cancellation by applicant.

5. Subject to the other requirements of the tariff, the Company reserves the right to suspend the issuance of permits for gas service on the basis of Company's sole judgment with respect to present and future connection factors and conditions.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will be Considered for Attachment

1. New Service:

(a) Residential Customers Based on the Following Conditions:

(i) Natural gas will be used for approved residential purposes in a single family and/or multifamily dwelling when individually metered, or master metered dwelling units where either a) or b) below prevent individual metering of service.

a) Gas is used in centralized heating, cooling, water heating or ventilation units.

b) Where individual metering is impractical, unreasonable, or uneconomical.

(ii) If an alternate form of energy other than solar is used for heating, it must provide 100% of peak day heating requirements.

(iii) Application approvals will be based on the date of pending applications, providing the above conditions are met and appropriate certifications are provided by owner.

(b) Firm Commercial and Industrial Service Based on the Following Conditions:

(i) Natural gas will be used for approved commercial and industrial purposes. This excludes gas used for irrigation, alfalfa dehydration and grain drying.

(ii) Customer's total requirement must be less than 200 dekatherms on a peak day.

(iii) If an alternate form of energy other than solar is used, it must provide 100% of peak day heating requirement.

(iv) Customer must comply with heat loss or insulation standards established by Federal or State mandate or as Company may establish in its tariff.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will Be Considered for Attachment (Continued)

1. New Service: (Continued)

(c) Interruptible Service Based on the Following Conditions:

(i) Company determines that the anticipated revenue from the new load is sufficient to prevent undue burden on existing ratepayers and conditions justify such service.

(ii) Load to be connected must not be prohibited by the connection policy of the pipeline supplier or be in violation of any end use standards promulgated by State or Federal agencies.

(iii) Applicants for service must agree to comply with all provisions of the service line extension policy described in Section IX.2 of this tariff.

(d) Rural and Agricultural service to Right-of-Way Grantors in accordance with easement agreements executed with the supplier under the following conditions:

(i) Applications for service must refer to and be based upon an easement clause which grants a right to a tap on the pipeline constructed pursuant to the easement.

(ii) Applicant must be the Grantor of the easement, or his successor or assignee.

(iii) The pipeline tap must be on a part of the property described in the easement.

(iv) The right to the tap set forth in the easement may not have been previously exercised.

(v) The volume of gas to be delivered through the tap may not exceed the smaller of the capacity of the initially installed small volume meter or the limits established by the wholesale supplier for small volume users.

(vi) Supplier must obtain requisite regulatory authority to make the sale.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will Be Considered for Attachment (Continued)

1. New Service: (Continued)

(vii) Gas delivered through the tap will not be resold to others by the Applicant or any of his successors.

(viii) Gas delivered will not be used for such commercial services as grain drying.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES

A. Residential Stand-Alone Service Extensions

For residential services added in an existing service area where no main extension is required and no prior feasibility study or Customer Extension Model included the proposed service line, Company will, without requiring a contribution in aid of construction (CIAC), provide 75 feet of service line to a permanent structure using gas for primary space heating, as measured from the customer's property line and subject to Company operating standards. Service line extensions beyond 75 feet will require a ~~contribution in aid of construction~~CIAC, which shall be determined based on the incremental cost of the additional footage, not to exceed $5.00 per foot~~.~~

For residential service extensions to a structure that does not use gas for primary space heating, the Company will ~~conduct~~ complete a ~~feasibility study~~Customer Extension Model described in paragraph C to determine the amount of any required ~~contribution in aid of construction~~CIAC.

If abnormal conditions, such as rock, make it impractical in the Company's opinion to install a gas service line and at the same time satisfy all safety requirements, the Company may refuse to install a gas service line to the premises. Where such a situation exists and it is possible to install a gas service line by special design or extra construction and such gas service line can be installed safely, the Company will design and install the gas service line to suit the particular circumstances, provided the following conditions are met:

(a) The design, arrangement, and location of the gas service line are accepted and approved by the applicant; and

(b) The applicant agrees to pay the Company for all abnormal construction costs including the cost of casing, if required.

The Company will conduct a ~~feasibility study~~ Customer Extension Model described in paragraph C to determine abnormal construction costs.

Once the Company waives any contribution by new customers for main and service extension costs, the Company cannot at any time recover these costs from existing ratepayers.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

B. Main and Service Extensions

For residential customers where both a main and service extension is required and for all extensions to serve commercial and industrial customers, regardless of whether a main extension is involved, the Company will ~~conduct a feasibility study~~complete a Customer Extension Model as described in paragraph C to determine the amount of any required ~~contribution in aid of construction~~CIAC. At its option, the Company may recover the amount of the ~~contribution in aid of construction~~CIAC from the developer or directly from the customer. When longer than typical service lines are omitted from the ~~feasibility study~~Customer Extension Model for a particular development, the Company shall determine the ~~contribution in aid of construction~~CIAC for the individual, longer service lines based on the incremental cost of the additional footage in excess of the typical footage used in the study for that development and shall recover the ~~contribution in aid of construction~~CIAC from the individual customer served by the longer service line.

If abnormal conditions, such as rock, make it impractical in the Company's opinion to install a gas service line and at the same time satisfy all safety requirements, the Company may refuse to install a gas service line to the premises. Where such a situation exists and it is possible to install a gas service line by special design or extra construction and such gas service line can be installed safely, the Company will design and install the gas service line to suit the particular circumstances, provided the following conditions are met:

(a) The design, arrangement, and location of the gas service line are accepted and approved by the applicant; and

(b) The applicant agrees to pay the Company for all abnormal construction costs including the cost of casing, if required.

The Company will conduct a ~~feasibility study~~Customer Extension Model described in paragraph C to determine abnormal construction costs.

Once the Company waives any contribution by new customers for main and service extension costs, the Company cannot at any time recover these costs from existing ratepayers.

C. ~~Feasibility of~~ Customers Contribution in Aid of Construction (CIAC) Calculation for Mains and Services

In determining whether ~~the expenditure is economically feasible~~a customer owes a CIAC, the Company shall take into consideration the total cost of serving the applicant including, but not limited to, the total investment, including mains and service related investment, the annual volume of gas to be sold, operating and maintaining expenses, margin, the acceptable level of return on the required investment, and potential for additional sales through the new facility. The specific uniform factors used by the Company in ~~conducting its feasibility analysis~~ completing a Customer Extension Model along with a description of the current ~~feasibility~~ Ccustomer Eextension M~~m~~odel are contained as an exhibit to the General Rules, Regulations, Terms and Conditions portion of this tariff. The Company will not use other uniform factors or change the ~~feasibility model c~~Customer eExtension ~~m~~Model without filing an amended exhibit. Company will apply the general principal that the rendering of service to the applicant shall not result in undue burden on the other customer. If a ~~contribution in aid of construction~~CIAC is required, it will be based on the results of ~~the feasibility model~~the Customer Extension Model.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

D. Winter Construction Charge

When the service or main is installed between December 1 and April 1, inclusive, because of failure of customer to meet all requirements of the Company by November 30 or because the customer's property, or the streets leading thereto, are not ready to receive the service pipe or gas main by such date, the anticipated winter construction charges will be included in determining the feasibility and any necessary ~~contribution in aid of construction~~CIAC. Such work will be subject to a base winter construction charge on all ditch footages, as an adder, and applies to any plowing, trenching, boring, or bell holes.

In addition to the base winter construction charge, a frost charge will be assessed by the Company for those portions of main or service lines where twelve or more inches of frost exists. The frost charge is not included on boring lengths but can apply to open trench and send or receive holes for bores. When twelve inches or more of frost exists outside the Winter Construction period, the frost charge may be applied as an expense due to abnormal conditions pursuant to Sheet No. 9.04 or Sheet No. 9.05. Included within the base winter construction charge and the frost charge are the use of any thawing devices or other equipment required to install as needed.

The winter construction charge shall be equal to costs in excess of normal summer construction costs. Winter construction will not be undertaken by the Company where prohibited by law or where it is not practical to install gas main or gas service pipe during the winter season. The Company may reduce winter construction charges only to the extent the Company incurs a corresponding reduction in costs to install facilities during the winter construction period. The same charge reductions will be offered to all similarly situated customers. The Company may not assess customers more than the tariffed winter construction charge(s). Current winter construction charges are as follows:

- Winter Construction Charge: $5.50 (7 County Metro), $4.96 (out-state) per lineal foot;
- Frost Charge: $6.05 (7 County Metro), $5.77 (out-state) per lineal foot.

Bell Holes: When it is necessary to use thawing devices in order to excavate the bell hole, or locate other utility crossings, there will be a ~~one~~ one-time charge of $279.90 regardless of the number of thawing devices required.

E. Extension of Mains - Limitations

The Company reserves the right to refuse to install its facilities in or to any lot, tract or area if in the Company's judgment it is not economically feasible per the tariffed ~~feasibility~~ Ceustomer Eextension M~~m~~odel~~s~~, is not safe for the Company's personnel, the customer, or the general public, or the lot, tract, or area is located remotely from the Company's other general service areas such that effective service, operations, or emergency response capabilities are impacted.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

F. Title To Facilities

Title to all facilities herein provided for, together with all necessary right-of-way, permits and easements shall be and remain in the Company. As a condition of receiving service, the customer shall grant to the Company, without cost, all rights-of-way, easements, permits and privileges which are necessary for the rendering of gas service.

G. Exhibits

Method:
A standard ~~c~~Customer ~~e~~Extension ~~m~~Model will be used that is designated to calculate the total revenue requirement for each year of the average service life of the plant installed. The model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists. For residential customers, the revenue requirement includes the cost of a 75 foot service line.

The Net Present Value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the cost of long-term debt authorized in the most recent general rate proceeding. A total NPV of approximately zero ($0) will show a project is self-supporting.

Customer Extension Model

Definitions:
All terms describe contents and general operation of the Customer Extension Model used to determine whether a CIAC is required from a customer(s).

1) Time Period: Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.

2) Year.

3) Gross Plant Investment: Cumulative plant in service at the end of the year reduced by the net present value of the CIAC in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.

4) Accumulated Depreciation Reserve: Book depreciation for the current year plus all previous years.

5) Net Plant In Service: The difference between Gross Plant Investment and Accumulated Depreciation Reserve.

6) Average Net Plant.

~~Exhibit For Main and Service Extension Feasibility Model~~

~~The Company has developed the following feasibility model to be used to determine if a contribution in aid of construction is required by the customer. Economic feasibility is determined by a combination of 10-year Net Present Value (NPV) and 5-year Return On Equity (ROE) calculations.~~

~~The following provides a sample of the model the Company will use in conducting its feasibility study, when one is required pursuant to Section IX.2 of its tariff, including a description of the project-specific inputs required, the current applicable rates used in the calculations and the outputs generated. A copy of the feasibility study actually conducted for a project will be retained by the Company in the corresponding job file.~~

~~Input Screen:~~

~~Line 3: Project Name: Enter the project name.~~

~~Line 8: Projected Number of Incremental Residential Customers – Enter the incremental number of residential customers projected for each year of the project. (To be determined by Sales or Operations personnel based on past experience with developer, geographic location, economy, etc.).~~

~~Line 9: Total Residential Customers Per Project – Calculated by model.~~

~~Line 10: Per Average Residential Customer Dekatherm Usage – Enter the average annual usage per residential customer. (To be determined annually based on recent history of weather normalized consumption data).~~

~~Line 11: Margin Per Dekatherm – Current distribution charge for residential customers as specified by tariff.~~

~~Line 12: Monthly Residential Customer Charge – Current monthly customer charge for residential customers as specified by tariff.~~

~~Line 15: Enter YES if model is being used to analyze a single Commercial/Industrial customer with escalating usage over time.~~

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

G. Exhibits (Continued)

7) Average Accumulated Deferred Income Taxes: The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on the CIAC. At the end of the service life of the plant installed the balance of ADIT will be zero.

8) Average Rate Base: Total of Average Net Plant plus Average Accumulated Deferred Income Taxes.

9) Allowed Return: Allowed Rate of Return as determined in the Company's most recent general rate proceeding.

The Allowed Rate of Return multiplied by the Average Rate Base equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment. The depreciation factor used is based on a weighted average of depreciation rates used in Company's most recent general rate proceeding.

11) O & M Expense: In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses. The calculation is average customers multiplied by incremental cost per customer.

12) Property Tax: In any year shall be a factor of the gross plant investment (after the CIAC). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.

13) Total Revenue Requirement: Total of Allowed Return, Book Depreciation, O & M Expenses, and Property Tax.

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement and the amount of Retail Revenue. 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 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.

The model will determine what the CIAC would be for a customer in order for 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's CIAC is the proper amount of customer-contributed capital necessary to support the project at the projected level of retail revenues.

~~Line 16: Projected Number of Incremental Commercial/Industrial Customers – Enter the incremental number of Commercial/Industrial customers projected for each year of the project. (To be determined by Sales or Operations personnel based on input from prospective~~

~~customer(s), geographic location, economy, etc.).~~

~~Line 17: Total Commercial/Industrial Customers Per Project – Calculated by model.~~

~~Line 18: Per Average Commercial/Industrial Customer Dekatherm Usage – Enter the average annual usage per Commercial/Industrial customer.~~

~~Line 19: Margin Per Dekatherm – Current distribution charge for Commercial/Industrial customers as specified by tariff.~~

~~Line 20: Monthly Commercial/Industrial Customer Charge – Current monthly customer charge for Commercial/Industrial customers as specified by tariff.~~

~~Line 24: From Customer Estimate Form: Capital investment carried forward from electronic Customer Estimate Form if used.~~

~~Line 26: Infrastructure Cost – Mains – Enter the estimated infrastructure costs for mains. (As calculated by Operations/Engineering personnel).~~

~~Line 27: Cost Per Residential Customer – Services – Enter the estimated average cost per residential service associated with the project. (As calculated by Operations/Engineering personnel based on historic information and/or information provided by developer).~~

~~Line 28: Cost Per Commercial/Industrial Service – Services – Enter the estimated average cost per Commercial/Industrial service associated with the project. (As calculated by Operations/Engineering personnel based on historic information).~~

~~Line 29: Customer Contribution (if required) – Customer contribution required, calculated by the model on Line 69.~~

~~Line 33: Cost Per Residential Customer – Other – Enter any extraordinary costs associated with residential customers. (To be determined by Sales or Operations personnel based on project specific information). Examples of extraordinary costs are sales expense (advertising/brochures), sales labor/expenses or contract sales expense for new town piping, etc.~~

~~EXTENSION OF NATURAL GAS SERVICE~~CANCELLED

~~2.~~ ~~EXTENSIONS OF COMPANY MAINS AND SERVICES~~ ~~(Continued)~~

~~G. Exhibits (Continued)~~

~~Line 34: Cost Per Commercial/Industrial Service – Other - Enter any extraordinary costs associated with Commercial/Industrial customers. (To be determined by Sales or Operations personnel based on project-specific information). Examples of extraordinary costs are sales expense (advertising/brochures), sales labor/expenses or contract sales expense for new town piping, etc.~~

~~Line 36: Customer Acquisition Costs – Direct "Fixed" - Enter any extraordinary costs associated with the project that are non-customer specific. (To be determined by Sales or Operations personnel based on project-specific information). Examples of extraordinary costs are sales expense (advertising brochures), sales labor/expenses or contract sales expense for new town piping, etc.~~

~~Output Screen:~~

~~The Output Screen contains calculations from the Input Screen and Support Screen.~~
~~Line 45: Projected Margins From Residential Customers: (margin/dekatherms x accumulated residential usage volume) + (monthly customer charge x accumulated number of residential customers x 12 months).~~

~~Line 46: Projected Margins From Commercial/Industrial Customers: (margin/dekatherms x accumulated Commercial/Industrial usage volume) + (monthly customer charge x accumulated number of Commercial/Industrial customers x 12 months).~~

~~Line 47: Total Margins From Project: Projected Margins From Residential Customers + Projected Margins From Commercial/Industrial Customers.~~

~~Line 51: Total Incremental Investment By Year: Estimated main cost, Line 26 + (projected number of residential customers, Line 8 x estimated cost per residential service, Line 27) + (projected number of Commercial/Industrial services, Line 16 x estimated cost per Commercial/Industrial service, Line 28) + customer contribution, Line 69.~~

~~Line 52: Total Net Project Investment: Sum of all annual incremental investments.~~

~~Line 54: Total Other Costs Incurred (Variable & Fixed): Customer acquisition costs, Line 36 (direct fixed) + Line 33 (variable residential customer) + Line 34 (variable Commercial/Industrial customer).~~

EXTENSION OF NATURAL GAS SERVICECANCELLED

~~2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)~~

~~G. Exhibits (Continued)~~

~~Line 59: Net Present Value (NPV) @ 10 Years with Residual: Must be > 0 to be acceptable. The NPV is the derivation of the net cash flows from Line 103 for the first ten years of the project discounted by the rate found on Line 79 (8.15%).~~

~~Line 60: Net Present Value @ 10 Years without Residual: Net present value @ 10 years calculated using targeted discount rate of 8.15% and projected cash net of project without residual value.~~

~~Line 61: Net Present Value @ 20 Years without Residual: Net present value @ 20 years calculated using targeted discount rate of 8.15% and projected cash net of project without residual value.~~

~~Line 63: Average R.O.E. @ 5 years: Average return on equity at 5 years. Must be greater than 11.5% to be acceptable. The numerator (Net Income) per Line 116 is the simple sum of the net income from the first five years of the project divided into the denominator (Average Common Equity) per Line 110 which is the simple sum of the average common equity for the first five years of the project.~~

~~Line 64: Average R.O.E. @ 10 years: Average return on equity at 10 years.~~

~~Line 67: This is the estimated Customer Contribution (calculated by the model) to close the gap between the calculated ROE for the project and the targeted ROE (11.5%) per Line 63. The formula for the estimated contribution is (E110)* (.115-H63)/E84 less ((\$N\$79*((\$E\$82+\$E\$83+\$E\$86)/(1+\$E\$81)))/\$E\$84). This required contribution is calculated using the Goal Seek function (See Line 69). The required inputs are: Row 1) Set Cell input H67; Row 2) To Value, input "0"; and Row 3) by Changing Cell, input H69.~~

~~Line 69: Amount of Required Customer Contribution by Year Transferred to Input Screen (Line 29). Using a Microsoft/Excel software function (Goal Seek) the optimization of the project required contribution is calculated, that is the exact dollar amount, no more no less, to drive the project to the targeted ROE (11.5%) per Line 63. Typically the Customer Contribution will be collected in Year 1.~~

~~Line 73: Project Margins Allocated – Percentage of margins applied to incremental O&M and system/infrastructure costs (33%).~~

~~Line 74: Contract Length: Number of years used for calculations (30 years for residential).~~

~~EXTENSION OF NATURAL GAS SERVICE~~CANCELLED

~~2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)~~

~~G. Exhibits (Continued)~~

~~Support Screen:~~

~~Line 79: Targeted Discount Rate: Current value = 8.15%. ((50% x 11.5%) + ((50% x 8%) x (1 – tax rate)) = 8.15%).~~

~~Line 80: Effective Income Tax Rate: Current value = 40.00%.~~

~~Line 81: Statutory Income Tax Rate: Current value = 40.00%.~~

~~Line 82: Selected Depreciation Rate: 3.33% (30 year estimated life, unless contract length specified).~~

~~Line 83: Property Tax/Insurance Rate: Current value = 2.00%.~~

~~Line 84: Equity as a Percent of Capital: Current value = 50%.~~

~~Line 85: Long Term Debt as a Percent of Capital: Current value = 50%.~~

~~Line 86: Weighted Cost of Long Term Debt @ 8%: Current value = 4.00%.~~

~~Line 87: Cash Carrying Charge (Property Tax + Income Tax – (Depreciation x Income Tax) = 0.133%.~~

~~Line 89: Accumulated Number of Residential Customers: Brought forward from Input Page, Line 8, and accumulated at year-end for each year of the first ten years of the project.~~

~~Line 90: Accumulated Residential Usage Volumes: The average use per residential customer is brought forward from Input Page, Line 10, multiplied by the Accumulated Number of Residential Customers per Line 89 to calculate the accumulated usage for each year of the first ten years of the project.~~

~~Line 92: Accumulated Number of Commercial/Industrial Customers: Brought forward from Input Page Line 16, and accumulated at year-end of each year of the first ten years of the project.~~

~~Line 93: Accumulated Commercial/Industrial Usage Volumes: The average use per customer is brought forward from Input Page, Line 18, multiplied by the Accumulated Number of Commercial Customers per Line 92 to calculate the accumulated usage for each year of the first ten years of the project.~~

~~EXTENSION OF NATURAL GAS SERVICE~~CANCELLED

~~2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)~~

~~G. Exhibits (Continued)~~

~~Line 96: "Cash Flow" is a description line (No input).~~

~~Line 97: Contribution to System Customers: A rate of 33% per Line 73 x Projected Margins per Line 47.~~

~~Line 98: Income Tax on Net Margins: Effective income tax rate per Line 80 x (projected margins per Line 47 less the contribution to system per Line 97).~~

~~Line 99: Cash Incoming: Projected margins per Line 47 less the calculated contributions to system per Line 97 less the calculated income tax on net margins per Line 98.~~

~~Line 100: Income tax on customer acquisition costs: Effective income tax rate per Line 80 x total other costs incurred per Line 54.~~

~~Line 101: Net Cash Carrying Charges: Cash carrying charge per Line 87 x Projected running gross plant in service per Line 107.~~

~~Line 102: Cash Outgoing: Total cash investment by year per Line 51 + total other costs incurred per Line 54 less tax on customer acquisition costs per Line 100 + net cash carrying charges per Line 101.~~

~~Line 103: Cash Net of Project (with residual value in yr 10): Cash coming in per Line 99 less cash going out per Line 102. The residual value is assumed to be equal to the gross plant invested for the project less the accumulated depreciation reserve at the end of year 10.~~

~~Line 104: Cash Net of Project (without residual value): Cash net of project per Line 103 less the calculated residual value (Gross Plant in Service less Accumulated Depreciation Reserve at year 10.~~

~~Line 107: Projected Running Gross Plant in Service: Total investment by year brought forward from Input Page, Line 51.~~

~~Line 108: Projected Running Net Plant in Service: Projected running gross plant in service per Line 51 less (projected running gross plant in service per Line 51 x depreciation rate per Line 82). The ending year calculation becomes the beginning year amount for the following year.~~

~~EXTENSION OF NATURAL GAS SERVICE~~CANCELLED

~~2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)~~

~~G. Exhibits (Continued)~~

~~Line 109: Projected Average Common Equity Balance: ((Projected running gross plant in service per Line 107 + projected running net plant in service per Line 108)/2) x equity as a % of capital, per Line 84.~~

~~Line 110: Projected Average Common Equity Balance First 5 Years: Sum of first 5 years of Line 109.~~

~~Line 111: Operating Book Income: Total margins from project per Line 47 less contribution to system per Line 97 less total other costs incurred per Line 54.~~

~~Line 112: Depreciation Expense: Depreciation rate per Line 82 x projected running gross plant in service per Line 107.~~

~~Line 113: Carrying Costs (Interest & Property Tax): (Property tax & insurance rate per Line 83 + weighted cost of long term debt per Line 86) x ((Projected running gross plant in service per Line 107 + projected running net plant in service per Line 108)/2).~~

~~Line 114: Statutory Income Tax: Statutory income tax rate per Line 81 x (operating book income per Line 111 less depreciation expense per Line 112 less carry costs per Line 113).~~

~~Line 115: Net Income Available for Shareholders: Operating book income per Line 111 less depreciation expense per Line 112 less carrying costs per Line 113 less statutory income tax per Line 114.~~

~~Line 116: Net Income Available for Shareholders First 5 Years: Sum of first 5 years of Line 115.~~

~~Line 117: Return on Equity: Net income available for shareholders per Line 116 / projected average common equity balance per Line 109.~~

~~Approval: Enter CIAC amount, name of person authorizing CIAC, and date authorized.~~

~~Comments: Describe all special or unusual situations connected to the project, the calculation of the feasibility, or the collection of the required CIAC. Also include any information used to determine the customer connection projection if different than the developer provided.~~

Clean Tariffs

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES

A. Applications and Permits

1. Applications for natural gas service are required for the services set forth hereunder. Connection of load subject to application without proper approval will be cause for disconnection or suspension of service pursuant to Designation 9.A.3 of these Rules and Regulations.

(a) New residential service except as exempted in A.2 below.

(b) Residential heating conversion from another fuel or expansion of peak heating requirements except as exempted in A.2 below.

(c) Commercial service, new and expanded requirements except as exempted in A.2 below.

(d) Industrial service - new and expanded requirements.

2. Applications for natural gas service are not required for:

(a) Additions to base load appliances for clothes drying, water heating and cooking.

(b) Additions of less than 50,000 BTU/hour in domestic heating loads over the heating load approved and connected to Company's distribution system as of May 10, 1977.

3. Applicants for service must agree to comply with all provisions of the main and service line extension policy described in Section IX.2 of this tariff.

4. All applications will be reviewed by Company's management and shall be processed in the following manner:

(a) Approved.

(b) Denied.

(c) Retained for future use, subject to cancellation by applicant.

5. Subject to the other requirements of the tariff, the Company reserves the right to suspend the issuance of permits for gas service on the basis of Company's sole judgment with respect to present and future connection factors and conditions.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will be Considered for Attachment

1. New Service:

(a) Residential Customers Based on the Following Conditions:

(i) Natural gas will be used for approved residential purposes in a single family and/or multifamily dwelling when individually metered, or master metered dwelling units where either a) or b) below prevent individual metering of service.

a) Gas is used in centralized heating, cooling, water heating or ventilation units.

b) Where individual metering is impractical, unreasonable, or uneconomical.

(ii) If an alternate form of energy other than solar is used for heating, it must provide 100% of peak day heating requirements.

(iii) Application approvals will be based on the date of pending applications, providing the above conditions are met and appropriate certifications are provided by owner.

(b) Firm Commercial and Industrial Service Based on the Following Conditions:

(i) Natural gas will be used for approved commercial and industrial purposes. This excludes gas used for irrigation, alfalfa dehydration and grain drying.

(ii) Customer's total requirement must be less than 200 dekatherms on a peak day.

(iii) If an alternate form of energy other than solar is used, it must provide 100% of peak day heating requirement.

(iv) Customer must comply with heat loss or insulation standards established by Federal or State mandate or as Company may establish in its tariff.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will Be Considered for Attachment (Continued)

1. New Service: (Continued)

(c) Interruptible Service Based on the Following Conditions:

(i) Company determines that the anticipated revenue from the new load is sufficient to prevent undue burden on existing ratepayers and conditions justify such service.

(ii) Load to be connected must not be prohibited by the connection policy of the pipeline supplier or be in violation of any end use standards promulgated by State or Federal agencies.

(iii) Applicants for service must agree to comply with all provisions of the service line extension policy described in Section IX.2 of this tariff.

(d) Rural and Agricultural service to Right-of-Way Grantors in accordance with easement agreements executed with the supplier under the following conditions:

(i) Applications for service must refer to and be based upon an easement clause which grants a right to a tap on the pipeline constructed pursuant to the easement.

(ii) Applicant must be the Grantor of the easement, or his successor or assignee.

(iii) The pipeline tap must be on a part of the property described in the easement.

(iv) The right to the tap set forth in the easement may not have been previously exercised.

(v) The volume of gas to be delivered through the tap may not exceed the smaller of the capacity of the initially installed small volume meter or the limits established by the wholesale supplier for small volume users.

(vi) Supplier must obtain requisite regulatory authority to make the sale.

EXTENSION OF NATURAL GAS SERVICE

1. CUSTOMER CONNECTION PROCEDURES AND GUIDELINES (Continued)

B. Applications Which Will Be Considered for Attachment (Continued)

1. New Service: (Continued)

(vii) Gas delivered through the tap will not be resold to others by the Applicant or any of his successors.

(viii) Gas delivered will not be used for such commercial services as grain drying.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES

A. Residential Stand-Alone Service Extensions

For residential services added in an existing service area where no main extension is required and no prior feasibility study or Customer Extension Model included the proposed service line, Company will, without requiring a contribution in aid of construction (CIAC), provide 75 feet of service line to a permanent structure using gas for primary space heating, as measured from the customer's property line and subject to Company operating standards. Service line extensions beyond 75 feet will require a CIAC, which shall be determined based on the incremental cost of the additional footage, not to exceed $5.00 per foot

For residential service extensions to a structure that does not use gas for primary space heating, the Company will complete a Customer Extension Model described in paragraph C to determine the amount of any required CIAC.

If abnormal conditions, such as rock, make it impractical in the Company's opinion to install a gas service line and at the same time satisfy all safety requirements, the Company may refuse to install a gas service line to the premises. Where such a situation exists and it is possible to install a gas service line by special design or extra construction and such gas service line can be installed safely, the Company will design and install the gas service line to suit the particular circumstances, provided the following conditions are met:

(a) The design, arrangement, and location of the gas service line are accepted and approved by the applicant; and

(b) The applicant agrees to pay the Company for all abnormal construction costs including the cost of casing, if required.

The Company will conduct a Customer Extension Model described in paragraph C to determine abnormal construction costs.

Once the Company waives any contribution by new customers for main and service extension costs, the Company cannot at any time recover these costs from existing ratepayers.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

B. Main and Service Extensions

For residential customers where both a main and service extension is required and for all extensions to serve commercial and industrial customers, regardless of whether a main extension is involved, the Company will complete a Customer Extension Model as described in paragraph C to determine the amount of any required CIAC. At its option, the Company may recover the amount of the CIAC from the developer or directly from the customer. When longer than typical service lines are omitted from the Customer Extension Model for a particular development, the Company shall determine the CIAC for the individual, longer service lines based on the incremental cost of the additional footage in excess of the typical footage used in the study for that development and shall recover the CIAC from the individual customer served by the longer service line.

If abnormal conditions, such as rock, make it impractical in the Company's opinion to install a gas service line and at the same time satisfy all safety requirements, the Company may refuse to install a gas service line to the premises. Where such a situation exists and it is possible to install a gas service line by special design or extra construction and such gas service line can be installed safely, the Company will design and install the gas service line to suit the particular circumstances, provided the following conditions are met:

(a) The design, arrangement, and location of the gas service line are accepted and approved by the applicant; and

(b) The applicant agrees to pay the Company for all abnormal construction costs including the cost of casing, if required.

The Company will conduct a Customer Extension Model described in paragraph C to determine abnormal construction costs.

Once the Company waives any contribution by new customers for main and service extension costs, the Company cannot at any time recover these costs from existing ratepayers.

C. Customers Contribution in Aid of Construction (CIAC) Calculation for Mains and Services

In determining whether a customer owes a CIAC, the Company shall take into consideration the total cost of serving the applicant including, but not limited to, the total investment, including mains and service related investment, the annual volume of gas to be sold, operating and maintaining expenses, margin, the acceptable level of return on the required investment, and potential for additional sales through the new facility. The specific uniform factors used by the Company in completing a Customer Extension Model along with a description of the current Customer Extension Model are contained as an exhibit to the General Rules, Regulations, Terms and Conditions portion of this tariff. The Company will not use other uniform factors or change the Customer Extension Model without filing an amended exhibit. Company will apply the general principal that the rendering of service to the applicant shall not result in undue burden on the other customer. If a CIAC is required, it will be based on the results of the Customer Extension Model.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

D. Winter Construction Charge

When the service or main is installed between December 1 and April 1, inclusive, because of failure of customer to meet all requirements of the Company by November 30 or because the customer's property, or the streets leading thereto, are not ready to receive the service pipe or gas main by such date, the anticipated winter construction charges will be included in determining the feasibility and any necessary CIAC. Such work will be subject to a base winter construction charge on all ditch footages, as an adder, and applies to any plowing, trenching, boring, or bell holes.

In addition to the base winter construction charge, a frost charge will be assessed by the Company for those portions of main or service lines where twelve or more inches of frost exists. The frost charge is not included on boring lengths but can apply to open trench and send or receive holes for bores. When twelve inches or more of frost exists outside the Winter Construction period, the frost charge may be applied as an expense due to abnormal conditions pursuant to Sheet No. 9.04 or Sheet No. 9.05. Included within the base winter construction charge and the frost charge are the use of any thawing devices or other equipment required to install as needed.

The winter construction charge shall be equal to costs in excess of normal summer construction costs. Winter construction will not be undertaken by the Company where prohibited by law or where it is not practical to install gas main or gas service pipe during the winter season. The Company may reduce winter construction charges only to the extent the Company incurs a corresponding reduction in costs to install facilities during the winter construction period. The same charge reductions will be offered to all similarly situated customers. The Company may not assess customers more than the tariffed winter construction charge(s). Current winter construction charges are as follows:

- Winter Construction Charge: $5.50 (7 County Metro), $4.96 (out-state) per lineal foot;
- Frost Charge: $6.05 (7 County Metro), $5.77 (out-state) per lineal foot.

Bell Holes: When it is necessary to use thawing devices in order to excavate the bell hole, or locate other utility crossings, there will be a one-time charge of $279.90 regardless of the number of thawing devices required.

E. Extension of Mains - Limitations

The Company reserves the right to refuse to install its facilities in or to any lot, tract or area if in the Company's judgment it is not economically feasible per the tariffed Customer Extension Model, is not safe for the Company's personnel, the customer, or the general public, or the lot, tract, or area is located remotely from the Company's other general service areas such that effective service, operations, or emergency response capabilities are impacted.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

F. Title To Facilities

Title to all facilities herein provided for, together with all necessary right-of-way, permits and easements shall be and remain in the Company. As a condition of receiving service, the customer shall grant to the Company, without cost, all rights-of-way, easements, permits and privileges which are necessary for the rendering of gas service.

G. Exhibits

Method:
A standard Customer Extension Model will be used that is designated to calculate the total revenue requirement for each year of the average service life of the plant installed. The model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists. For residential customers, the revenue requirement includes the cost of a 75 foot service line.

The Net Present Value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the cost of long-term debt authorized in the most recent general rate proceeding. A total NPV of approximately zero ($0) will show a project is self-supporting.

Customer Extension Model

Definitions:
All terms describe contents and general operation of the Customer Extension Model used to determine whether a CIAC is required from a customer(s).

1) Time Period: Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.

2) Year.

3) Gross Plant Investment: Cumulative plant in service at the end of the year reduced by the net present value of the CIAC in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.

4) Accumulated Depreciation Reserve: Book depreciation for the current year plus all previous years.

5) Net Plant In Service: The difference between Gross Plant Investment and Accumulated Depreciation Reserve.

6) Average Net Plant.

EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

G. Exhibits (Continued)

7) Average Accumulated Deferred Income Taxes: The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on the CIAC. At the end of the service life of the plant installed the balance of ADIT will be zero.

8) Average Rate Base: Total of Average Net Plant plus Average Accumulated Deferred Income Taxes.

9) Allowed Return: Allowed Rate of Return as determined in the Company's most recent general rate proceeding.

The Allowed Rate of Return multiplied by the Average Rate Base equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment. The depreciation factor used is based on a weighted average of depreciation rates used in Company's most recent general rate proceeding.

11) O & M Expense: In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses. The calculation is average customers multiplied by incremental cost per customer.

12) Property Tax: In any year shall be a factor of the gross plant investment (after the CIAC). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.

13) Total Revenue Requirement: Total of Allowed Return, Book Depreciation, O & M Expenses, and Property Tax.

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement and the amount of Retail Revenue. 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 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.

The model will determine what the CIAC would be for a customer in order for 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's CIAC is the proper amount of customer-contributed capital necessary to support the project at the projected level of retail revenues.

CANCELLED

Issued By: DM Derricks
Asst. Vice President, Regulatory Services
Submittal Date: February 13, 2015
*Effective with bills issued on and after this date.

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

CANCELLED

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CANCELLED

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 13th day of February, 2015, on behalf of Minnesota Energy Resources Corporation, she electronically filed a true and correct copy of the attached Petition and Attachments on www.edockets.state.mn.us. A summary of the filing has been served on all parties on MERC's general service list.

/s/ Kristin M. Stastny
Kristin M. Stastny

Subscribed and sworn to before me
This 13th Day of February, 2015.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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MINNESOTA ENERGY RESOURCES
CUSTOMER EXTENSION MODEL

PUBLIC DOCUMENT--TRADE SECRET DATA HAS BEEN EXCISED

Docket No. G011/M-15-___
Attachment A
Public

[TRADE SECRET DATA BEGINS...

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