Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068
www.minnesotaenergyresources.com

July 1, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

VIA ELECTRONIC FILING

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Modifications to Tariffs in Section 9, Extension of Natural Gas Service

Docket No. G011/M-20-___

Dear Mr. Seuffert:

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this miscellaneous filing to the Minnesota Public Utilities Commission ("Commission") for approval of modifications to Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book to provide clarification of the customer connection procedures and guidelines, and to revise the tariff language regarding winter construction charges to state that charges will be equal to the rates charged by MERC's construction contractor. Clean and redline tariff sheets are included as Attachment A to this filing.

A copy of this miscellaneous filing has been served on the Minnesota Department of Commerce, Division of Energy Resources and the Minnesota Office of the Attorney General – Residential Utilities Division. A summary of the filing has been served on all parties on the attached service list.

Please contact me at (414) 221-4208 if you have any questions. Thank you for your attention to this matter.

Sincerely,

Joylyn C. Hoffman Malueg

Joylyn Hoffman Malueg
Project Specialist 3
Minnesota Energy Resources Corporation

Enclosures
cc: Service List

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	**Chair**
Valerie Means	**Commissioner**
Matthew Schuerger	**Commissioner**
Joseph K. Sullivan	**Commissioner**
John A. Tuma	**Commissioner**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Modifications to Tariffs in Section 9, Extension of Natural Gas Service	Docket No. G011/M-20-____

PETITION FOR APPROVAL OF PROPOSED MODIFICATIONS TO TARIFFS IN SECTION 9, EXTENSION OF NATURAL GAS SERVICE

Pursuant to Minn. R. 7829.1300, Minnesota Energy Resources Corporation ("MERC") submits to the Minnesota Public Utilities Commission ("Commission") this Petition for approval of modifications to Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book to provide clarification regarding the requirements for an application for natural gas service to be processed, to revise the date by which a customer must meet all requirements in order to avoid application of winter construction charges, and to revise the tariff language regarding winter construction charges to state that charges will be equal to the rates charged by MERC's construction contractor.

With this Petition, MERC respectfully requests that the Commission approve its proposed tariff changes.

I. <u>Summary of Filing</u>

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

II. <u>Service</u>

Pursuant to Minn. R. 7829.1300, subp. 2, MERC has served a copy of this petition on the Minnesota Department of Commerce, Division of Energy Resources and the

Minnesota Office of the Attorney General – Residential Utilities 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
Taft Stettinius & Hollister LLP
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
KStastny@Taftlaw.com
(612) 977-8656

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

Date of Filing: July 1, 2020

Proposed Effective Date: Upon Commission Approval

MERC respectfully requests that the Commission rule on this filing so that new winter construction charges may be implemented beginning in March of 2021 based on actual winter construction costs reflected in MERC's updated construction contract. While MERC has negotiated updated winter construction charges effective March 1, 2021 with its construction contractor, MERC will not begin charging the new winter construction charges until the proposed tariff modifications have been approved by the Commission.

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. Pursuant to Minn. R. 7829.1400, subp. 1, 4, comments on a miscellaneous filing are due within 30 days of filing, with replies due 10 days thereafter.

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

Joylyn C. Hoffman Malueg
Project Specialist 3
Minnesota Energy Resources Corporation
231 W. Michigan Street
Milwaukee, WI 53203
Joylyn.HoffmanMalueg@wecenergygroup.com
(414) 221-4208

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

Through this filing, MERC is requesting approval of modifications to tariffs in Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book to provide clarification of Customer Connection Procedures and Guidelines, and proposed updates to winter construction charges and requirements. Clean and redline tariff sheets are included as Attachment A to this filing.

1. Customer Connection Procedures and Guidelines

First, MERC proposes to add clarifying language to Tariff Sheet No. 9.00, Customer Connection Procedures and Guidelines Section 1.A.1.5, regarding the processing and review of applications for new gas service. The language MERC proposes is intended to further clarify the process set forth in the Company's tariff for processing applications for new service. Specifically, MERC proposes language stating that the Company will authorize connection of qualifying customers in the order their application has been received, and only after a completed application and the appropriate certifications have been provided by the customer. MERC seeks to include this clarifying language to ensure customers are aware that they are required to submit an application and provide appropriate certifications before a request for new service will be processed. The customer will be placed in the queue for authorization of connection of service once both of those requirements are met. This clarifying language does not have an impact on MERC's revenue requirements or current practice and is intended only to further clarify existing procedures and requirements.

2. Winter Construction Charges

Second, MERC proposes modifications to Tariff Sheet No. 9.06, Section 2.D. regarding winter construction charges to (1) modify the date by which customers must have completed all requirements and be ready to receive natural gas service in order to avoid incurring winter construction charges in order to allow sufficient time for MERC to process applications and complete construction before the winter construction period begins and (2) to remove the specific winter construction footage charges, frost charges, and burner charges, which are updated annually based on current construction contract rates, and instead state that such charges will be equal to current contract rates.

The first proposed modification to change the date by which a customer must meet all application requirements and be ready to receive the natural gas service pipe or gas main installation is necessary to provide sufficient time to process new service applications and complete installation work before the beginning of the winter construction period on December 1. Under the proposed tariff language, customers will continue to only be assessed winter construction charges for construction that occurs during the winter construction period of December 1 to April 1. Pursuant to MERC's tariffs, winter construction charges, frost charges, and charges for thawing devices to excavate bell holes or other utility crossings reflect costs in excess of normal summer construction costs. Winter construction will not be undertaken where prohibited by law or where it is not practical to install gas main or gas service pipe during the winter season.

Under MERC's current tariff, the deadline to meet the construction request requirements is November 30, leaving only one day between such deadline and the beginning of the winter construction period on December 1. MERC has found it impracticable to design, schedule, and construct requests that are submitted during the month of November, much less by November 30, before winter construction charges begin on December 1. As a result, MERC is proposing the date change from November 30 to September 30. Requiring that developers meet all requirements and that the property to be served is ready to receive service by September 30 will allow MERC adequate time to design, schedule, and construct the customer requested service or main installation prior to winter construction charges being in effect. This date change does not have an impact on MERC's revenue requirements and customers will continue to be assessed only for winter construction charges when they are incurred by MERC in accordance with the provisions of the Company's tariffs. This modification ensures that customers seeking to have new service installed during the winter construction season are responsible for the resulting additional incremental costs and ensures that developers provide MERC with sufficient lead time to complete design and construction before the winter construction period when possible.

Additionally, MERC proposes modifications to its existing tariff language to remove the specific winter construction footage charges, frost footage charges, and burner charges in Tariff Sheet No. 9.06; and state that then-applicable contract rates for all winter construction, frost charges, and burners will be applied when the conditions set forth in MERC's tariffs are met (i.e., between December 1 and April 1, when 12 or more inches of frost exist, and/or when thawing devices are required to excavate bell holes or locate other utility crossings). These modifications will allow the Company to recover actual contractor costs in excess of normal summer construction costs imposed by customers who have natural gas service installed during winter construction conditions, ensure customers are not assessed any charges in excess of actual construction costs, and eliminate the time and expense associated with tariff modification filings whenever contract rates change. The proposed change will not impact MERC's revenue requirement as the additional revenue from the application of the actual charges would be used to pay winter construction contractor costs.

Currently, MERC's tariffs include approved winter construction charges, frost charges, and thaw charges for 2018, 2019, and 2020. MERC has entered into a contract with its construction contractor, NPL, for new charges to be effective March 1, 2021. The proposed tariff language would allow MERC to charge the actual costs that its construction contractor charges MERC during the winter construction period and/or under applicable winter construction conditions, consistent with the Company's tariff. Allowing these charges to be passed through without additional approval through a separate tariff modification each time blanket contract charges are implemented is reasonable as MERC actively negotiates these charges to ensure they are reasonable and competitive and regularly undertakes a competitive bidding process to ensure its blanket construction contract and pricing are reasonable. Attachment B provides the negotiated rates that were historically in effect for the 2018, 2019, and 2020 Winter Construction Charges, and the newly negotiated rates for 2021, 2022, and 2023 Winter Construction Charges. Under MERC's existing tariff language, the Company is required to routinely file and obtain Commission approval to implement new winter construction charge, frost charge, and bell hole charges, requiring time and expense. In the past, the Commission has routinely approved the negotiated contractor rates for implementation.[1] As MERC continues to utilize the same processes for

[1] *See* Docket Nos. G007,011/M-07-1188, G007,011/M-12-362, G011/M-13-722, G011/14-361, and G011/M-18-589. Pursuant to the Commission's January 15, 2008, Order in Docket No. G007,011/M-07-

periodic negotiation and bidding of its construction contract, implementation of those rates without additional regulatory review and approval is reasonable and appropriate. The proposed changes are also consistent with other approved tariffs on file with the Commission which do not specify a per foot cost.[2]

IV. <u>Conclusion</u>

MERC respectfully requests the Commission approve this petition and allow MERC to revise its tariff provisions in Section 9, Extension of Natural Gas Service to clarify the Customer Connection Procedures and Guidelines, to revise the deadline for customers to complete all requirements for service or main installation in advance of the winter construction period, and to revise the tariff language regarding winter construction charges to state that charges will be equal to the rates charged by MERC's construction contractor rather than including specific charges. If additional information is required, please contact Joylyn C. Hoffman Malueg at (414) 221-4208 or Kristin Stastny at (612) 977-8656.

DATED: July 1, 2020

Respectfully submitted,

TAFT STETTINIUS & HOLLISTER LLP

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

Attorney for Minnesota Energy Resources Corporation

1188, MERC is currently required to submit, for Commission approval, any future proposed changes to the Company's approved Winter Construction Charges tariff. Through this filing, MERC requests that the Commission modify that requirement and allow the Company to revise its tariffs to charge winter construction charges based on current contractor rates.

[2] *See* Greater Minnesota Gas Tariff, Section VI, Revised Sheet No. 11 ("The Company's winter construction charges will be individually determined."); Xcel Energy Minnesota Gas Rate Book, Section No. 6, Sheet No. 19 (stating that charges for frost depths 18" or greater and for main and service extensions of more than 4" pipe, winter construction costs will be determined individually).

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	**Chair**
Valerie Means	**Commissioner**
Matthew Schuerger	**Commissioner**
Joseph K. Sullivan	**Commissioner**
John A. Tuma	**Commissioner**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Modifications to Tariffs in Section 9, Extension of Natural Gas Service	Docket No. G011/M-20-____

SUMMARY OF FILING

Pursuant to Minnesota Rules Part 7829.1300, Minnesota Energy Resources Corporation ("MERC") submits to the Minnesota Public Utilities Commission ("Commission") this Petition for approval of proposed modifications to tariffs in Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book to provide clarification of Customer Connection Procedures and Guidelines and proposed updates to Winter Construction Charges and requirements.

Attachment A

Clean and Redline Tariff Sheets

Clean Tariff Sheets

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 Section 9.A.3 of the General Rules, Regulations, Terms and Conditions.

   (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 including but not limited to the availability of gas supplies and delivery capacity. The Company will authorize connection of qualifying customers based on the time of when both requirements are met: 1) Company has received a complete application from customer and 2) all required certifications have been provided by the customer.

1. <u>CUSTOMER CONNECTION PROCEDURES AND GUIDELINES</u> (Continued)

B. <u>Applications Which Will be Considered for Attachment</u>

1. <u>New Service:</u>

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

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

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) Farm Tap Customers 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.

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.

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, 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. The actual per-foot installation cost is renegotiated annually through a competitive bidding process. Commercial and industrial customers do not receive a service extension allowance.
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.

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.

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

D. Winter Construction Charges

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 September 30 or because the customer's property, or the streets leading thereto, are not ready to receive the service pipe or gas main by September 30, 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 for construction that takes place from December 1 to April 1. The winter construction cost will be determined individually at current contractor rates.

In addition to the base winter construction charge, when it is necessary to use thawing devices to excavate bell holes or locate other utility crossings, there will be a per burner charge for such devices equal to current contractor rates.

Additionally, 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. Frost charges for bell holes will be paid per the perimeter footage of the bell hole (one bell hole per service). The frost charge will be determined individually at current contractor rates.

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 actual cost for winter construction.

2. <u>EXTENSIONS OF COMPANY MAINS AND SERVICES</u> (Continued)

E. <u>Extension of Mains - Limitations</u>

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.

F. <u>Title To Facilities</u>

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. <u>Exhibits</u>

<u>Method</u>:
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. The calculation of retail revenues generated shall not include the Conservation Cost Recovery Charge (CCRC). The calculation of the revenue requirement for residential customers shall exclude the cost of up to a 75 foot service line. The calculation of revenue requirement for commercial and industrial customers shall include the cost of required service line extension.

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

<u>Customer Extension Model</u>

<u>Definitions</u>:
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

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 approved overall rate of return 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.

CANCELED

CANCELED

CANCELED

CANCELED

CANCELED

3. NEW AREA SURCHARGE RIDER

Availability:
Service under this rate schedule is available only to geographical areas that have not previously been served by the Company. This rate schedule will enable natural gas service to be extended to 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 New Area Surcharge will be used and implemented at the Company's discretion.

Applicability and Character of Service:
All customers on this rate shall receive service according to the terms and conditions of one of the Company's gas tariff services.

Rate:
As authorized by the MPUC, the total billing rate for any customer class will be the approved rate for that customer class plus a fixed monthly new area surcharge. All customers in the same rate class will be billed the same surcharge. The net present value of the new area surcharge will be treated as a Contribution-in-Aid-of-Construction for accounting and ratemaking purposes. The new area surcharge calculation includes the full life of all plant additions.

Method:
A standard 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.

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. Projected customer CIAC surcharge revenues are then introduced into the model and the resultant NPV calculation is made to decide if the project is self supporting. A total NPV of approximately zero ($0) will show a project is self supporting.

The model will be run each year after the initial construction phase of a project wherein actual amounts for certain variables will be substituted for projected values to track recovery of expansion costs and the potential to end the customer surcharge before the full term. The variables, which will be updated in the model, each year will be:

1. The actual capital costs and projected remaining capital costs for the project,
2. Number of customers used to calculate the surcharge revenue and the retail margin revenue, and
3. The actual surcharge and retail revenue received to date and the projected surcharge and retail revenue for the remaining term of the surcharge.

3. NEW AREA SURCHARGE RIDER (Continued)

Term:
The term of service under this rate schedule shall vary from area to area depending on the service extension project. However, under no circumstances shall the surcharge applicable to any project remain in effect for a term to exceed thirty (30) years. The Company assumes the risk for under recovery of expansion costs, if any, which may remain at the end of the maximum surcharge term.
Expiration:
The surcharge for all customers in an area subject to the New Area Surcharge Rider shall end on the date specified for the project tariff, on the date the approved revenue deficiency is retired, or at the end of thirty (30) years, whichever occurs first.
Revenue Requirements Model
Definitions:
All terms describe contents and general operation of the Revenue Requirements Model used to determine a New Area Surcharge Rider for a project.

Column/Description

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 surcharge revenues in year 0. The discount rate used for this present value calculation is the cost of long-term debt from the Company's most recent rate case. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public, but excluding the cost of service lines. 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 (Column 3) and Accumulated Depreciation Reserve (Column 4).
6) Average Net Plant: Average of Column 5.
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.

3. NEW AREA SURCHARGE RIDER (Continued)

8) Average Rate Base: Total of Average Net Plant (Column 6) plus Average Accumulated Deferred Income Taxes (Column 7).

9) Allowed Return: Derived from the Company's most recent general rate proceeding:

Equity Ratio	X	Return on Equity	X	(1+Tax Rate)	=	Weighted Cost
Long Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
Short Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
						Allowed Rate of Return

The Allowed Rate of Return multiplied by the Average Rate Base (Column 8) equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment defined in Column (3). 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 (Column 9), Book Depreciation (Column 10), O & M Expenses (Column 11), and Property Tax (Column 12).

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge, excluding the Conservation Cost Recovery 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.

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 and Residential –Farm Tap	$25.45
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$25.45
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$120.55
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$442.03
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$495.61

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:

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential and Residential –Farm Tap	$19.16
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$36.30
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$90.76
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$332.78
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$373.12

Fayal Township—Long Lake Project 20 Year New Area Surcharge Expires 2036	
Residential and Residential –Farm Tap	$21.16
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$40.09
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$100.23
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$367.49
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$412.04

EXTENSION OF NATURAL GAS SERVICE Original Sheet No. 9.19

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:

Esko Project 25 Year New Area Surcharge Expires 2042	
Residential and Residential –Farm Tap	$24.18
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$45.81
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$114.53
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$419.95
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$470.85

Balaton Project 25 Year New Area Surcharge Expires 2042	
Residential and Residential –Farm Tap	$24.14
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$45.75
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$114.37
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$419.34
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$470.17

EXTENSION OF NATURAL GAS SERVICE Original Sheet No. 9.20

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:

Pengilly Project 25 Year New Area Surcharge Expires 2044	
Residential and Residential –Farm Tap	$24.70
Commercial & Industrial Firm Class 1 and Farm Tap Firm Class 1	$46.82
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$117.07
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$429.23
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$481.27

Redline Tariff Sheets

EXTENSION OF NATURAL GAS SERVICE ~~3rd~~ 4th Revised Sheet No. 9.00

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 Section 9.A.3 of the General Rules, Regulations, Terms and Conditions.

   (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~~.~~

including but not limited to the availability of gas supplies and delivery capacity. The Company will authorize connection of qualifying customers based on the time of when both requirements are met: 1) Company has received a complete application from customer and 2) all required certifications have been provided by the customer.

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

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

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) Farm Tap Customers 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.

1. <u>CUSTOMER CONNECTION PROCEDURES AND GUIDELINES</u> (Continued)

B. <u>Applications Which Will Be Considered for Attachment</u> (Continued)

1. <u>New Service:</u> (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.

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, 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. The actual per-foot installation cost is renegotiated annually through a competitive bidding process. Commercial and industrial customers do not receive a service extension allowance.
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.

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 8~~7~~th Revised Sheet No. 9.06

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)

D. Winter Construction Charges

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~~ September 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,~~September 30, 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 for construction that takes place from December 1 to April 1. The winter construction cost will be determined individually at current contractor rates.~~.~~

~~Winter Construction Charge 2018~~	~~$5.83 per lineal foot (7 county metro)~~ ~~$5.25 per lineal foot (out-state)~~
~~Winter Construction Charge 2019~~	~~$6.00 per lineal foot (7 county metro)~~ ~~$5.41 per lineal foot (out-state)~~
~~Winter Construction Charge 2020~~	~~$6.12 per lineal foot (7 county metro)~~ ~~$5.52 per lineal foot (out-state)~~

In addition to the base winter construction charge, when it is necessary to use thawing devices to excavate bell holes or locate other utility crossings, there will be a per burner charge for such devices equal to current contractor rates.

Additionally, 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. Frost charges for bell holes will be paid per the perimeter footage of the bell hole (one bell hole per service). The frost charge will be determined individually at current contractor rates.

~~Frost Charge 2018~~	~~$6.41 per lineal foot (7 county metro)~~ ~~$6.12 per lineal foot (out-state)~~
~~Frost Charge 2019~~	~~$6.60 per lineal foot (7 county metro)~~ ~~$6.30 per lineal foot (out-state)~~
~~Frost Charge 2020~~	~~$6.74 per lineal foot (7 county metro)~~ ~~$6.43 per lineal foot (out-state)~~

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 actual cost for winter construction.~~tariffed winter construction charge(s).~~

~~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 per burner charge equal to $296.69 in 2018, $305.59 in 2019, and $311.70 in 2020.~~

2. <u>EXTENSIONS OF COMPANY MAINS AND SERVICES</u> (Continued)

E. <u>Extension of Mains - Limitations</u>

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.

F. <u>Title To Facilities</u>

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. <u>Exhibits</u>

<u>Method</u>:
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. The calculation of retail revenues generated shall not include the Conservation Cost Recovery Charge (CCRC). The calculation of the revenue requirement for residential customers shall exclude the cost of up to a 75 foot service line. The calculation of revenue requirement for commercial and industrial customers shall include the cost of required service line extension.

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

<u>Customer Extension Model</u>

<u>Definitions</u>:
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

2. <u>EXTENSIONS OF COMPANY MAINS AND SERVICES</u> (Continued)

G. <u>Exhibits (Continued)</u>

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 approved overall rate of return 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.

CANCELED

CANCELED

CANCELED

CANCELED

CANCELED

3. NEW AREA SURCHARGE RIDER

Availability:
Service under this rate schedule is available only to geographical areas that have not previously been served by the Company. This rate schedule will enable natural gas service to be extended to 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 New Area Surcharge will be used and implemented at the Company's discretion.

Applicability and Character of Service:
All customers on this rate shall receive service according to the terms and conditions of one of the Company's gas tariff services.

Rate:
As authorized by the MPUC, the total billing rate for any customer class will be the approved rate for that customer class plus a fixed monthly new area surcharge. All customers in the same rate class will be billed the same surcharge. The net present value of the new area surcharge will be treated as a Contribution-in-Aid-of-Construction for accounting and ratemaking purposes. The new area surcharge calculation includes the full life of all plant additions.

Method:
A standard 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.

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. Projected customer CIAC surcharge revenues are then introduced into the model and the resultant NPV calculation is made to decide if the project is self supporting. A total NPV of approximately zero ($0) will show a project is self supporting.

The model will be run each year after the initial construction phase of a project wherein actual amounts for certain variables will be substituted for projected values to track recovery of expansion costs and the potential to end the customer surcharge before the full term. The variables, which will be updated in the model, each year will be:

1. The actual capital costs and projected remaining capital costs for the project,
2. Number of customers used to calculate the surcharge revenue and the retail margin revenue, and
3. The actual surcharge and retail revenue received to date and the projected surcharge and retail revenue for the remaining term of the surcharge.

3. NEW AREA SURCHARGE RIDER (Continued)

Term:
The term of service under this rate schedule shall vary from area to area depending on the service extension project. However, under no circumstances shall the surcharge applicable to any project remain in effect for a term to exceed thirty (30) years. The Company assumes the risk for under recovery of expansion costs, if any, which may remain at the end of the maximum surcharge term.
Expiration:
The surcharge for all customers in an area subject to the New Area Surcharge Rider shall end on the date specified for the project tariff, on the date the approved revenue deficiency is retired, or at the end of thirty (30) years, whichever occurs first.
Revenue Requirements Model
Definitions:
All terms describe contents and general operation of the Revenue Requirements Model used to determine a New Area Surcharge Rider for a project.

Column/Description

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 surcharge revenues in year 0. The discount rate used for this present value calculation is the cost of long-term debt from the Company’s most recent rate case. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public, but excluding the cost of service lines. 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 (Column 3) and Accumulated Depreciation Reserve (Column 4).
6) Average Net Plant: Average of Column 5.
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.

3. NEW AREA SURCHARGE RIDER (Continued)

8) Average Rate Base: Total of Average Net Plant (Column 6) plus Average Accumulated Deferred Income Taxes (Column 7).

9) Allowed Return: Derived from the Company's most recent general rate proceeding:

Equity Ratio	X	Return on Equity	X	(1+Tax Rate)	=	Weighted Cost
Long Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
Short Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
						Allowed Rate of Return

The Allowed Rate of Return multiplied by the Average Rate Base (Column 8) equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment defined in Column (3). 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 (Column 9), Book Depreciation (Column 10), O & M Expenses (Column 11), and Property Tax (Column 12).

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge, excluding the Conservation Cost Recovery 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.

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 and Residential –Farm Tap	$25.45
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$25.45
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$120.55
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$442.03
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$495.61

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:

Detroit Lakes—Long Lake Project 15 Year New Area Surcharge Expires 2030	
Residential and Residential –Farm Tap	$19.16
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$36.30
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$90.76
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$332.78
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$373.12

Fayal Township—Long Lake Project 20 Year New Area Surcharge Expires 2036	
Residential and Residential –Farm Tap	$21.16
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$40.09
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$100.23
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$367.49
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$412.04

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:

Esko Project 25 Year New Area Surcharge Expires 2042	
Residential and Residential –Farm Tap	$24.18
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$45.81
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$114.53
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$419.95
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$470.85

Balaton Project 25 Year New Area Surcharge Expires 2042	
Residential and Residential –Farm Tap	$24.14
Commercial &Industrial Firm Class 1 and Farm Tap Firm Class 1	$45.75
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$114.37
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$419.34
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$470.17

EXTENSION OF NATURAL GAS SERVICE Original Sheet No. 9.20

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:

Pengilly Project 25 Year New Area Surcharge Expires 2044	
Residential and Residential –Farm Tap	$24.70
Commercial & Industrial Firm Class 1 and Farm Tap Firm Class 1	$46.82
Commercial & Industrial Firm Class 2 and 3 and Farm Tap Firm Class 2 and 3	$117.07
Commercial & Industrial Interruptible Class 1, 2, and 3, Agricultural Grain Dryer Class 1, and Electric Generation Class 1	$429.23
Commercial & Industrial Firm and Interruptible Class 4 and 5, Farm Tap Firm Class 4 and 5, Grain Dryer Class 2 and 3, and Electric Generation Class 2	$481.27

Attachment B

Historical and Negotiated Winter Construction Charges

9/05/18
Lindsay Lyle
MERC

RE Winter Construction Blanket Rates

Lindsay,

NPL is submitting an agreement of understanding in regards to 2018-2020 winter construction charges.

		2018		2018		2019		2019		2020		2020	
		North Contract		South Contract		North Contract		South Contract		North Contract		South Contract	
Code	Description	North	Central	Southeast	Southwest	North	Central	Southeast	Southwest	North	Central	Southeast	Southwest
WC103	Minnesota Winter Construction Charge	$ 5.25	$ 5.83	$ 5.25	$ 5.25	$ 5.41	$ 6.00	$ 5.41	$ 5.41	$ 5.52	$ 6.12	$ 5.52	$ 5.52
WC104	Frost Charge if 12" or Greater	$ 6.12	$ 6.41	$ 6.12	$ 6.12	$ 6.30	$ 6.60	$ 6.30	$ 6.30	$ 6.43	$ 6.74	$ 6.43	$ 6.43
TM260	Frost Hog	$ 296.69	$ 296.69	$ 296.69	$ 296.69	$ 305.59	$ 305.59	$ 305.59	$ 305.59	$ 311.70	$ 311.70	$ 311.70	$ 311.70

Winter Construction payments (WC103) are to be made on all ditch footages, as an adder, between December 1st and April 1st. This pay item applies to any plowing, trenching, boring, or bell holes. Frost charges for bell holes will be paid per the perimeter footage of the bell hole(one bell hole per service).

The Frost Charge payment (WC104) is added to the winter construction charge for those portions of main or service installations in which the frost is greater than 12 inches deep. The payment is in addition to the Winter Construction payment. This payment is **not** included on boring lengths, as is WC103, but can apply to open trench and send or receive holes for bores. This item may also be used alone when WC103 does not apply, outside of the Winter Construction dates.

- Winter rates as follows listed above for all areas
- Any work outside 7 county metro area is T&E for travel to and from site
- NPL will bill the quantity of frost hogs dependent on utilities crossed per site
- Minimum 8 hours work per area required for unit rates to be discussed at time of scheduled work.

Regards,

Michael Theis

NPL Construction Company

6/25/2020
Lindsay Lyle
MERC

RE Winter Construction Blanket Rates

Lindsay,

NPL is submitting an agreement of understanding in regards to 2021-2024 winter construction charges.

			North Contract						South Contract					
			Central			North			Southeast			Southwest		
Item Code	Description	UOM	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
WC103	Winter Construction Charge	FT	$ 6.52	$ 6.71	$ 6.91	$ 6.24	$ 6.43	$ 6.62	$ 6.52	$ 6.71	$ 6.91	$ 5.91	$ 6.09	$ 6.27
WC104	Frost Charge	FT	$ 7.00	$ 7.21	$ 7.42	$ 6.42	$ 6.61	$ 6.81	$ 6.60	$ 6.81	$ 7.01	$ 6.24	$ 6.43	$ 6.62
TM260	Frost Hog	EA	$ 320.53	$ 330.15	$ 340.06	$ 320.53	$ 330.15	$ 340.06	$ 320.54	$ 330.16	$ 340.07	$ 320.54	$ 330.16	$ 340.07

Winter Construction payments (WC103) are to be made on all ditch footages, as an adder, between December 1st and April 1st. This pay item applies to any plowing, trenching, boring, or bell holes. Frost charges for bell holes will be paid per the perimeter footage of the bell hole(one bell hole per service).

The Frost Charge payment (WC104) is added to the winter construction charge for those portions of main or service installations in which the frost is greater than 12 inches deep. The payment is in addition to the Winter Construction payment. This payment is **not** included on boring lengths, as is WC103, but can apply to open trench and send or receive holes for bores. This item may also be used alone when WC103 does not apply, outside of the Winter Construction dates.

- Winter rates as follows listed above for all areas
- Any work outside 7 county metro area is T&E for travel to and from site
- NPL will bill the quantity of frost hogs dependent on utilities crossed per site
- Minimum 8 hours work per area required for unit rates to be discussed at time of scheduled work.

Regards,

Michael Theis

NPL Construction Company

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Modifications to Tariffs in Section 9, Extension of Natural Gas Service

Docket No. G011/M-20-____

CERTIFICATE OF SERVICE

I, Colleen T. Sipiorski, hereby certify that on the 1st day of July, 2020, 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 1st day of July, 2020.

/s/ Colleen T. Sipiorski
Colleen T. Sipiorski

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Catherine	Phillips	catherine.phillips@we-energies.com	We Energies	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Elizabeth	Schmiesing	eschmiesing@winthrop.com	Winthrop & Weinstine, P.A.	225 South Sixth Street Suite 3500 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Colleen	Sipiorski	Colleen.Sipiorski@wecenergygroup.com	Minnesota Energy Resources Corporation	700 North Adams St Green Bay, WI 54307	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Kristin	Stastny	kstastny@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 South 8th St Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Mary	Wolter	mary.wolter@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List