

PURCHASED GAS ADJUSTMENT - UNIFORM CLAUSE

1. Rates Subject to the Purchased Gas Adjustment (PGA) Clause: All gas utility rate schedules shall be subject to a gas cost adjustment as defined in 2. and 3. below. Since the Company purchases gas from different supply sources, the Company will determine the delivered cost of gas purchased by Supplier and implement any change in the billing rate which exceeds .3 cents per therm. The Company will also update its PGA every three months since the last change, which exceeded .3 cents per therm.

2. Determination of Purchased Gas Adjustment Amount: For purpose of computing the Purchased Gas Adjustment, the following formula will be used:

$$\frac{PD}{V} + WACOG + \frac{A}{V^1} - B = \text{Gas Cost Adjustment}$$

Where:

PD = Demand Cost: (1) The cost of purchased gas to be sold calculated by multiplying the current cost of purchased gas from each supplier times the last authorized demand volumes approved by the Commission and (2) The costs of firm transportation are calculated by multiplying the current cost from each supplier times the last demand volumes approved by the Commission.

WACOG = Projected weighted average cost of gas: The cost of purchased gas to be sold calculated by multiplying the estimated cost per dekatherm, therm or Btu by supplier (including transportation commodity costs) times the estimated purchase volumes by supplier for the upcoming month.

A = The current balance of unrecovered or over-recovered purchased gas costs. This is calculated once a year and filed each September 1 as explained in 5. on Sheet No. 7.01.

V = The sales volume for the forthcoming twelve month period ending August 31. The annual volumes shall:

- A. Be adjusted to reflect normal temperatures.
- B. Be for the most recent twelve months of the fourteen months immediately preceding the effective date of any demand increase or decrease.
- C. Once normalized, be further adjusted by an average percentage change in normalized sales computed over the preceding three year period.
- D. Also change in accordance with Minnesota Rules 7825.2390 - 7825.3000.

V<sup>1</sup> = Projected 12 months sales volumes.

B = Actual purchased gas cost embedded in the gas utility filed rate schedules based on purchase and sales volumes established during the base period including all adjustments approved by the Commission.

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VP Regulatory Affairs  
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\*Effective with bills issued on and after this date.

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PURCHASED GAS ADJUSTMENT – UNIFORM CLAUSE (Continued)

3. Application of Calculation

The formula  $\frac{PD}{V} + WACOG + \frac{A}{V' - B}$  identified previously will be calculated separately for each supplier and/or supply zone (where separate rate schedules are maintained), if appropriate by class of service for interruptible, firm and general service sales. Demand charges will be assigned on a unit basis to applicable customers.

4. Cost Included in the Purchased Gas Adjustment: The cost of gas included in the computation shall consist of all costs properly included in FERC Accounts 800 through 812, transportation charges and all other charges incurred to obtain gas supplies.

5. Frequency of Change: The underrecovery/overrecovery balance adjustments under this provision shall be computed and filed by September 1 of each year.

Accounting Requirement: Subsequent to the effective date of this clause, the Company shall maintain a continuing monthly comparison of the actual cost of gas as shown on the books and records of the Company, exclusive of refunds, and the cost recovery for the same month calculated by multiplying the volumes sold during said month by the currently effective rate for purchased gas. The difference in the actual cost of gas and the cost recovery represents the over/under recovery for the month. The total differences for the twelve-month period ending August 31 represent the balance of underrecovered or overrecovered purchased gas cost for the period. The balance for the period, plus the balance at the beginning of the period, and any adjustments represent the current balance in the Account (“A” in the formula above).

Costs included in the Purchased Gas Adjustment will be offset by the revenues collected from Company’s Small Volume Balancing Service on a yearly basis in the annual Reconciliation Adjustment.

The Company shall maintain an over/under account for each supply zone for the under-recovered or over-recovered purchased gas costs on a monthly basis.

6. Treatment of Refund: Refunds and interest thereon received from the suppliers of purchased gas that are attributable to the cost of gas previously sold will be refunded by credits to bills or by checks within a period not to exceed 90 days from the date the refund is received from a supplier, provided the refund amount per customer is equal to or greater than five cents. The utility shall include the unrefunded balance as an adjustment to the balance of under recovered or over recovered purchased gas cost for the period as explained in the Accounting Requirements above.

7. Information to be Filed with the Commission: Each Purchased Gas Adjustment will be accomplished by filing an application and will be accompanied by such supporting data and information as the Commission may require.

CONSERVATION COST RECOVERY ADJUSTMENT

1. Applicability of Conservation Cost Recovery Adjustment: The conservation cost recovery adjustment (CCRA) is applicable to the Company’s Minnesota gas rate schedules.
2. Adjustment: There shall be included on each customer’s monthly bill a CCRA factor multiplied by the customer’s monthly billing therms for gas service before any applicable adjustments, city surcharge, or sales tax.
3. Determination of Conservation Cost Recovery Adjustment Factor: The CCRA is calculated for each customer class by dividing the recoverable Conservation Improvement Program costs by the projected sales volumes for a designated recovery period, excluding the sales volumes of exempt customers. The factor may be adjusted annually with approval of the Minnesota Public Utilities Commission. The CCRA for each rate schedule is:

All Classes MERC-PNG	\$0.01719 per therm
All Classes MERC-NMU	\$0.02715 per therm
4. For those customer accounts granted an exemption by the Commissioner of the Minnesota Department of Commerce (or successor agency) from Conservation Improvement Program (CIP) costs pursuant to Minnesota Statutes section 216B.241, the CCRA shall not apply.
5. Accounting Requirements: The Company is required to record all costs associated with the conservation program in a CIP Tracker Account. All revenues recovered through the CCRA are booked to the Tracker as an offset to expenses.

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Proposed Effective Date: November 1, 2010

\*Effective with bills issued on and after this date.

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)

1. Availability:

Available to residential customers in the MERC-PNG Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program (“LIHEAP”) during the federal fiscal year (“Program Year”). Further, such customers must agree to be placed on a levelized payment plan and must also agree to a payment schedule as described below to be considered a “Qualified Customer”.

2. Program Description and Rate Impact for Qualifying Customers:

This Program shall meet the conditions of Minnesota Statutes, Chapter 216B.16, Subd. 15 on low income programs. The Program has two components: 1) Affordability, and 2) Arrearage Forgiveness. MERC-PNG or an agent of MERC-PNG, will review current billing and consumption information, approved LIHEAP benefits and household income information as submitted to MERC-PNG to determine a Qualified Customer’s payment schedule amount. A Qualified Customer’s payment schedule shall include both payment of the customer’s current month’s bill (which reflects one-twelfth the levelized payment plan), after inclusion of the affordability bill credit, and payment of a portion of the Qualified Customer’s pre-program arrears.

2.1. *Affordability Component:*

The Affordability component consists of a bill credit determined as one-twelfth of the difference between MERC-PNG’s estimate of the Qualified Customer’s annual gas bill and 6% of the Qualified Customer’s household income as provided by the Qualified Customer to MERC-PNG. This bill credit is a Program cost that will be included in the Tracker. Any energy assistance sums not applied to arrears will be applied to a Qualified Customer’s current bill.

2.2. *Arrearage Forgiveness Component:*

The Arrearage Forgiveness component consists of a monthly credit that will be applied each month after receipt of the Qualified Customer’s payment. The credit will be designed to retire pre-program arrears over a period of up to 24 months, with the Company matching the Qualifying Customer’s contribution to retiring pre-program arrears. The credit is determined by taking the pre-program arrears divided by the number of months to retire the arrears divided by two and then subtracting any energy assistance sums received by the Company on behalf of the customer divided by the number of months remaining to retire the arrears divided by two. This arrearage forgiveness credit is a Program cost that will be included in the Tracker.

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\*Effective with bills issued on and after this date.

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Proposed Effective Date: January 1, 2010

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

3. Conditions of Service:

- 3.1. Enrollment participation is limited to a first come first served basis until the estimated Program dollar cap is reached.
- 3.2. Before the start of an enrollment period, MERC-PNG will mail information on the Program and an application to participate in the Program to targeted current LIHEAP customers in arrears. The application for participation must be completed in full and returned to MERC-PNG before the close of the enrollment period.
- 3.3. Regardless of arrears balances, MERC-PNG agrees to maintain service and suspend collection activities to Qualified Customers if they maintain their payment schedule.
- 3.4. Qualified Customers must maintain an active MERC-PNG account in said customer’s name at their permanent primary residence only to be eligible for this Program.
- 3.5. Qualified Customers agree to notify MERC-PNG of any changes in address, income level, or household size. Such changes may result in removal from the Program. Additionally, Qualified Customers who do not continue to qualify under the provisions of Section 1 above can be removed from the Program.
- 3.6. If a Qualified Customer fails to pay two consecutive monthly payments in full under the Program, they will be terminated from the Program and will be subject to MERC-PNG’s regular collection practices including the possibility of disconnection.

4. Funding:

- 4.1. Total Program costs, which include start-up costs, Affordability component, Arrearage Forgiveness component and incremental administration costs incurred collectively by MERC-PNG and MERC-NMU shall not exceed \$1 million (\$1,000,000.00) per year. *See Exhibit B* for data indicating amounts allocated to MERC-PNG. MERC-PNG shall limit administrative costs included in the Tracker (except start-up related costs) to 5% of total Program costs. Administrative costs will include, but are not limited to, the costs to inform customers of the Program and costs to process and implement enrollments.
- 4.2. MERC-PNG shall recover Program costs in the Delivery Charge applicable to customers receiving firm service under Rate Schedules GS-1 General Service, GS-4 General Service, and GS-5 General Service.
- 4.3. A tracking mechanism (“Tracker”) will be established to provide for recovery of actual Program costs as compared to the recovery of Program costs through rates. MERC-PNG will track and defer Program costs with regulatory approval. The prudence of the Program costs are subject to regulatory review.

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

- 4.4. Program costs shall be recovered in the applicable Delivery Charge for all firm service customers receiving service under Rate Schedules GS-1 General Service, GS-4 General Service, and GS-5 General Service. The initial rate is \$0.0039 per therm. The surcharge will be identified as a separate line item, Gas Affordability Program charge, on the customer’s bill. MERC-PNG may petition the Commission to adjust this rate in order to true-up the Program balance in the Tracker either in a general rate case or at the end of the initial four-year term of the Program.
5. Evaluation:
- 5.1. The Program shall be evaluated before the end of the initial four year term and may be modified based on annual reports and on a financial evaluation.
- 5.2. The annual reports will include the effect of the Program on customer payment frequency, payment amount, arrearage level and number of customers in arrears, service disconnections, retention rates, customer complaints and utility customer collection activity. The annual reports may also include information about customer satisfaction with the Program.
- 5.3. The financial evaluation will include a discounted cash flow of the Program’s cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program. Any net benefit after the initial four year term of the Program will be added to the Tracker for refund to residential ratepayers.
6. Program Revocation:
- The Program, upon approval by the Commission, is effective unless the Commission, after notice and hearing, rescinds or amends its order approving the Program.
7. Term:
- The Program shall become effective April 1, 2008 and shall have an initial four-year term ending December 31, 2011. Annual reporting will begin on March 31, 2009 and will continue each year thereafter, ending on March 31, 2012.
8. Applicability:
- Unless otherwise specified in this tariff, Qualified Customers in the Program shall receive service in accordance with all terms and conditions of the standard gas service tariffs applicable to residential customers.

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GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

Exhibit B

MERC-NMU General Service throughput*	53,507,030/therm
MERC-PNG General Service throughput*	201,965,900/therm
TOTAL Throughput*	255,472,930/therm
Projected program arrearage expenses	\$950,000.00
Projected program administrative expenses	\$50,000.00
Projected total program costs	\$1,000,000.00
MERC-NMU program costs (21% of total)	
Arrearage expense	\$199,500.00
Administrative expense	\$10,500.00
Total MERC-NMU	\$210,000.00
MERC-PNG program costs (79% of total)	
Arrearage expense	\$750,500.00
Administrative expense	\$39,500.00
Total MERC-PNG	\$790,000.00
MERC-NMU/PNG affordability surcharge \$1,000,000.00/255,472,930/therm	\$0.0039/therm

\*Volume data from 06-07 MERC AAA filings, Docket No. E,G999/AA-07-1130

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\*Effective Date: January 1, 2010  
Proposed Effective Date: January 1, 2010

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)

1. Availability:

Available to residential customers in the MERC-NMU Minnesota service area who have been qualified and receive assistance from the Low Income Home Energy Assistance Program (“LIHEAP”) during the federal fiscal year (“Program Year”). Further, such customers must agree to be placed on a levelized payment plan and must also agree to a payment schedule as described below to be considered a “Qualified Customer”.

2. Program Description and Rate Impact for Qualifying Customers:

This Program shall meet the conditions of Minnesota Statutes, Chapter 216B.16, Subd. 15 on low income programs. The Program has two components: 1) Affordability, and 2) Arrearage Forgiveness. MERC-NMU or an agent of MERC-NMU, will review current billing and consumption information, approved LIHEAP benefits and household income information as submitted to MERC-NMU to determine a Qualified Customer’s payment schedule amount. A Qualified Customer’s payment schedule shall include both payment of the customer’s current month’s bill (which reflects one-twelfth the levelized payment plan), after inclusion of the affordability bill credit, and payment of a portion of the Qualified Customer’s pre-program arrears.

2.1. *Affordability Component:*

The Affordability component consists of a bill credit determined as one-twelfth of the difference between MERC-NMU’s estimate of the Qualified Customer’s annual gas bill and 6% of the Qualified Customer’s household income as provided by the Qualified Customer to MERC-NMU. This bill credit is a Program cost that will be included in the Tracker. Any energy assistance sums not applied to arrears will be applied to a Qualified Customer’s current bill.

2.2. *Arrearage Forgiveness Component:*

The Arrearage Forgiveness component consists of a monthly credit that will be applied each month after receipt of the Qualified Customer’s payment. The credit will be designed to retire pre-program arrears over a period of up to 24 months, with the Company matching the Qualifying Customer’s contribution to retiring pre-program arrears. The credit is determined by taking the pre-program arrears divided by the number of months to retire the arrears divided by two and then subtracting any energy assistance sums received by the Company on behalf of the customer divided by the number of months remaining to retire the arrears divided by two. This arrearage forgiveness credit is a Program cost that will be included in the Tracker.

GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

3. Conditions of Service:

- 3.1. Enrollment participation is limited to a first come first served basis until the estimated Program dollar cap is reached.
- 3.2. Before the start of an enrollment period, MERC-NMU will mail information on the Program and an application to participate in the Program to targeted current LIHEAP customers in arrears. The application for participation must be completed in full and returned to MERC-NMU before the close of the enrollment period.
- 3.3. Regardless of arrears balances, MERC-NMU agrees to maintain service and suspend collection activities to Qualified Customers if they maintain their payment schedule.
- 3.4. Qualified Customers must maintain an active MERC-NMU account in said customer’s name at their permanent primary residence only to be eligible for this Program.
- 3.5. Qualified Customers agree to notify MERC-NMU of any changes in address, income level, or household size. Such changes may result in removal from the Program. Additionally, Qualified Customers who do not continue to qualify under the provisions of Section 1 above can be removed from the Program.
- 3.6. If a Qualified Customer fails to pay two consecutive monthly payments in full under the Program, they will be terminated from the Program and will be subject to MERC-NMU’s regular collection practices including the possibility of disconnection.

4. Funding:

- 4.1. Total Program costs, which include start-up costs, Affordability component, Arrearage Forgiveness component and incremental administration costs incurred collectively by MERC-NMU and MERC-PNG shall not exceed \$1 million (\$1,000,000.00) per year. *See* Exhibit B for data indicating amounts allocated to MERC-NMU. MERC-NMU shall limit administrative costs included in the Tracker (except start-up related costs) to 5% of total Program costs. Administrative costs will include, but are not limited to, the costs to inform customers of the Program and costs to process and implement enrollments.
- 4.2. MERC-NMU shall recover Program costs in the Delivery Charge applicable to customers receiving firm service under Rate Schedule GS-NMU General Service.
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GAS AFFORDABILITY SERVICE PROGRAM (“PROGRAM”)(Continued)

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5. Evaluation:

5.1. The Program shall be evaluated before the end of the initial four year term and may be modified based on annual reports and on a financial evaluation.

5.2. The annual reports will include the effect of the Program on customer payment frequency, payment amount, arrearage level and number of customers in arrears, service disconnections, retention rates, customer complaints and utility customer collection activity. The annual reports may also include information about customer satisfaction with the Program.

5.3. The financial evaluation will include a discounted cash flow of the Program’s cost-effectiveness analysis from a ratepayer perspective comparing the 1) total Program costs, which includes the Affordability component, Arrearage Forgiveness component and total company incurred administration costs, to 2) the total net savings including cost reductions on utility functions such as the impact of the Program on write-offs, service disconnections and reconnections and collections activities. The discounted cash flow difference between total Program costs and total net savings will result in either a net benefit or a net cost to ratepayers for the Program. Any net benefit after the initial four year term of the Program will be added to the Tracker for refund to residential ratepayers.

6. Program Revocation:

The Program, upon approval by the Commission, is effective unless the Commission, after notice and hearing, rescinds or amends its order approving the Program.

7. Term:

The Program shall become effective April 1, 2008 and shall have an initial four-year term ending December 31, 2011. Annual reporting will begin on March 31, 2009 and will continue each year thereafter, ending on March 31, 2012.

8. Applicability:

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MERC-NMU/PNG affordability surcharge	
\$1,000,000.00/255,472,930/therm	\$0.0039/therm

\*Volume data from 06-07 MERC AAA filings, Docket No. E,G999/AA-07-1130

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