

WHAT IS THE PROCESS FOR REVIEWING MERC-PNG'S REQUEST?

In addition to the review by the MPUC, the Minnesota Office of Energy Security (OES) conducts an investigation of MERC-PNG's books and records. The Minnesota Office of the Attorney General-Residential Utilities Division (OAG-RUD) may investigate this proposal as well as other parties such as customer or public interest groups.

Public hearings will be scheduled by the MPUC and overseen by an Administrative Law Judge. Customers and others will have the opportunity to comment on our rate request at the hearings. The public is encouraged to attend and provide comments. Public notice of the hearing dates and locations will be published in local newspapers in MERC-PNG's service area, in an insert in your monthly bill, and on the internet at www.minnesotaenergyresources.com.

FOR MORE INFORMATION

You may visit MERC-PNG's offices during normal business hours to examine the current and proposed rate schedules. Offices are located at:

301 2nd Street NW
Bemidji

910 Cloquet Avenue
Cloquet

304 North Park Street
Fairmont

3460 Technology Drive NW
Rochester

2665 145th Street West
Rosemount

You may also examine our current and proposed rate schedules and our request for new rates by visiting our website at www.minnesotaenergyresources.com.

Or, you may contact:

Minnesota Department of Commerce
85 Seventh Place East, Suite 500
St. Paul, MN 55101
Telephone: 651-296-9314

Citizens with hearing or speech disabilities may call through Minnesota Relay at 800-627-3529 or 7-1-1.

Or visit the eDockets website at <https://www.edockets.state.mn.us/EFiling/search.jsp>, select 10 in the year field, enter 977 in the number field, click on Search, and the list of documents will appear on the next page.

Anyone who wishes to formally intervene in this case should contact:

Administrative Law Judge Manuel J. Cervantes
Office of Administrative Hearings
P.O. Box 64620, St. Paul, MN 55101
Telephone: 651-361-7900, TTY: 651-361-7878

You do not need to contact the Administrative Law Judge if you simply want to attend the public hearings, provide oral comments at the public hearings or submit comment letters to the Administrative Law Judge. Written comments are most effective when the following three items are included:

- (1) the issue/s in MERC-NMU's proposal you are addressing,
- (2) your specific recommendation, and
- (3) the reason for your recommendation.

You may also provide comments to:

MPUC
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147
Telephone: 651-296-0406 or 800-657-3782
Email: PublicComments.puc@state.mn.us

Citizens with hearing or speech disabilities may call through Minnesota Relay at 800-627-3529 or 7-1-1.

Please be sure to reference PUC Docket No. G-007,011/GR-10-977 and OAH Docket No. 16-2500-21807-2 in all correspondence or comments.

IMPORTANT

Comments will be made available to the public on the MPUC's website, except in limited circumstances consistent with the Minnesota Government Data Practices Act. The MPUC does not edit or delete personal identifying information from submissions.

IMPORTANT INFORMATION
about your natural gas rates

INTERIM GAS RATES IN EFFECT FEBRUARY 1, 2011

For Customers Served by
The Viking Gas Pipeline

AN EXPLANATION OF CHANGES TO YOUR NATURAL GAS RATES

On November 30, 2010, Minnesota Energy Resources Corporation-PNG (MERC-PNG) asked the Minnesota Public Utilities Commission (MPUC) for permission to increase its natural gas rates by \$13,718,788, or approximately 5.9% overall. If approved by the MPUC, the requested increase would add about \$4.58 to a typical residential customer's monthly bill in the MERC-PNG Viking Gas Pipeline rate area. MERC-PNG's last request for an increase in its base rates was in 2008. The 2008 rate request was approved by the MPUC in September 2009, and implemented in January 2010.

While the MPUC considers MERC-PNG's request, state law allows MERC-PNG to collect higher rates on an interim (temporary) basis. **The overall interim rate increase is \$5,716,422, or an average of 2.46% over current rates including the cost of gas.** This increase appears on your bill as an interim rate adjustment. The amount of this adjustment is calculated by multiplying 9.42% by the total of the customer charge, the distribution charge, and if applicable, the demand charge, on your bill.

The MPUC has until December 29, 2011 to evaluate MERC-PNG's request and issue its decision. If final rates are lower than interim rates, we will refund customers the difference with interest. If final rates are higher than interim rates, we will not charge customers the difference.



WPS-74-I-MERRC-0211



minnesotaenergyresources.com

WHY IS MERC-PNG ASKING FOR AN INCREASE?

MERC-PNG is requesting this increase due to reduced sales, and increased costs for customer service functions, conservation programs, and general inflation.

MERC is proposing a revenue decoupling mechanism for residential and small commercial customers. The purpose of revenue decoupling is to reduce MERC's disincentive to promote energy conservation and energy efficiency by separating the link between the amount of revenue MERC collects from its customers and the amount of natural gas its customers use. If approved, MERC would be allowed to automatically adjust its rates up or down each year to make up for any shortfall or any excess in sales revenues.

If decoupling is not approved, then MERC proposes to increase the monthly customer charge for residential customers to \$24.25, and increase the monthly customer charge for small commercial customers to \$29.60, and decrease the per therm gas distribution charges.

MERC is also requesting approval to charge its customers in the MERC-PNG Viking Gas Pipeline and Great Lakes Pipeline rate areas and the proposed MERC-NMU Consolidated rate area the same rates. If approved, for MERC-PNG customers this would mean an increase in rates of approximately \$13.7 million, or 5.9%, per year, and for MERC-NMU customers this would mean an increase in rates of approximately 2.4% per year.

If rate area consolidation is not approved, MERC requests a rate increase of approximately \$11.8 million, or 5.1%, per year for MERC-PNG.



HERE'S HOW THE RATE CHANGE WILL AFFECT MONTHLY BILLS

The proposed rate increase will affect individual monthly bills differently depending on natural gas use and customer type. The proposed customer charges and the distribution charges recover only the cost of providing distribution service to our customers. These rates do not include the wholesale cost of gas – which is passed on to you directly without adding a penny to the price. Your monthly bills will continue to vary due to changes in the wholesale cost of natural gas.

The chart below shows the effect of the interim and proposed rate change on monthly bills for customers with average gas

usage in MERC-PNG's Viking Gas Company service area. The interim monthly bill includes a 9.42% interim rate increase in the customer charge, the distribution charge, and if applicable, the demand charge. This calculation will not necessarily result in an interim monthly bill that is uniformly 2.46% higher than present bills because the cost of gas is not included in the calculation of the interim rate increase.

PROPOSED CHANGE IN AVERAGE MONTHLY BILLS

Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Interim Monthly Bill	Proposed Monthly Bill
Residential	65	\$62	\$63	\$66
Small Commercial & Industrial	67	\$66	\$68	\$72
Large Commercial & Industrial	499	\$419	\$427	\$439
Small Volume Interruptible & Joint Sales	3,020	\$2,105	\$2,146	\$2,104
Large Volume Interruptible & Joint Sales	93,218	\$54,343	\$54,643	\$54,442
Transportation	11,808	\$1,082	\$1,184	\$1,111

*The present rate levels identified in this application represent the rates authorized in Docket No. G007,011/GR-08-835.

PROPOSED CHANGES FOR MONTHLY CUSTOMER CHARGE AND THE PER UNIT GAS DISTRIBUTION CHARGE

This chart shows the current and proposed customer charge and distribution charge for each customer class.

Customer Class	Current Monthly Fixed Charge	Proposed Monthly Fixed Charge	Current per Therm Distribution Charge	Proposed per Therm Distribution Charge
Residential	\$7.25	\$9.50	\$0.17746	\$0.21748
Small Commercial & Industrial	\$12	\$14.50	\$0.15022	\$0.20531
Large Commercial & Industrial	\$17	\$19.50	\$0.14984	\$0.18862
Small Volume Interruptible & Joint	\$80	\$85	\$0.11681	\$0.12086
Large Volume Interruptible & Joint	\$160	\$175	\$0.03248	\$0.03568
Transportation Administrative Fee*	\$170	\$70		

*The customer charge for customers receiving transportation service is the same as for comparable sales service, except for the additional monthly administrative fee.