



Minnesota Energy Resources

Suite 200

1995 Rahnclyff Court

Eagan, MN 55122

December 9, 2015

To: All Municipalities, Counties, and Local Governing Bodies within Minnesota Energy Resources Corporation's Minnesota Service Area.

Dear Sir and Madam:

Pursuant to Order Point 5 of the November 30, 2015 "Notice of and Order For Hearing" in Minnesota Public Utilities Commission Case No. 011/GR-15-736, enclosed is the above mentioned Order. In addition enclosed are Notices to Counties and Municipalities of Application for Rate Increase.

Please contact me at 920-433-2926 with any questions.

Sincerely yours,

A handwritten signature in black ink that reads "Seth DeMerritt". The signature is written in a cursive, slightly slanted style.

Seth DeMerritt
Rate Case Consultant

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
John A. Tuma
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Application of
Minnesota Energy Resources Corporation for
Authority to Increase Rates for Natural Gas
Service in Minnesota

ISSUE DATE: November 30, 2015

DOCKET NO. G-011/GR-15-736

NOTICE OF AND ORDER FOR HEARING

PROCEDURAL HISTORY

On September 30, 2015, Minnesota Energy Resources Corporation (MERC or the Company) filed a general rate case seeking an annual rate increase of some \$14,800,000, or approximately 5.47%.

On October 2, 2015, the Commission issued a notice to potentially interested persons requesting comments on whether the Commission should accept the filing as substantially complete and whether it should refer the case to the Office of Administrative Hearings for contested case proceedings.

The only entity to file comments was the Minnesota Department of Commerce (the Department), which recommended accepting the filing as of September 30, conditioned on the Company's prompt provision of more detailed information on deferred costs incurred in its development of a new customer-service system. The Department also recommended referring the case to the Office of Administrative Hearings for contested case proceedings.

On October 21 and 26, the Company filed additional information on the development and costs of its new customer-service system.

On November 13, 2015, the Commission met to consider the case. At that hearing, the Department stated that the additional information filed by the Company was adequate for present purposes, recommended accepting the rate-case filing as complete, and recommended referring the case to the Office of Administrative Hearings for contested case proceedings.

By separate orders the Commission has suspended the proposed rate change and set an interim rate schedule for use during the suspension period.¹

¹ See *Order Accepting Filing, Permitting Specific Salary Data to Remain Private, Extending Timelines, and Suspending Rates* and *Order Setting Interim Rates*, both issued today in this case.

FINDINGS AND CONCLUSIONS

I. Jurisdiction and Referral for Contested Case Proceedings

The Commission has jurisdiction over proposed rate changes under Minn. Stat. § 216B.16. If the Commission is unable to resolve all significant issues regarding the reasonableness of the proposed rates on the basis of the filing itself, the Commission is to refer the matter to the Office of Administrative Hearings for contested case proceedings. Minn. Stat. § 216B.16, subd. 2.

The Commission finds that it cannot satisfactorily resolve all questions regarding the reasonableness of the proposed rates on the basis of the Company's filing. The Commission will therefore refer the matter to the Office of Administrative Hearings for contested case proceedings.

II. Issues to be Addressed

Parties shall specifically and thoroughly address the following issues in the course of the contested case proceedings ordered herein:

- 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company?
- 2) Is the rate design proposed by the Company reasonable?
- 3) Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?
- 4) Other Revenue issues pertaining to MERC's Information Requirements Document No. 5, pages 3 and 4, including the adjustments to, and reduction in, Account 495–Other Gas Revenues.
- 5) The extent to which the cost of system upgrades to serve the City of Rochester should be borne by all MERC ratepayers and if so, on what basis.
- 6) Whether the test year in this case and in future MERC rate cases should be so far removed from the most recent fiscal year and whether the test year should be allowed to start more than 60 days after the filing date.

The parties may also raise and address other issues relevant to the Company's proposed rate increase.

III. Supplementary Filings Required

MERC based the per-dekatherm demand cost factored into the new base cost of gas on the sales forecast used in this filing. That forecast could change, and if it does, MERC must promptly make an updated filing reflecting the new per-dekatherm demand cost and the new base cost of gas.

The Company must also file supplemental direct testimony explaining the significant adjustments to, and reductions in, Account 495–Other Gas Revenues, between the 2014 base year and the 2016 test year. The balance in that account appears to have gone from \$6,420,780 to \$8,854, with no detailed account of the reasons for the discrepancy.

Finally, as noted above, this rate case uses a 2016 projected test year, based on a 2015 projected fiscal year, based on actual 2014 fiscal-year data. To provide an accuracy check, the Commission will require the Company to file supplementary direct testimony and exhibits. The supplementary filing must include updated 2015 rate base and operating statement numbers, including bridge schedules to fiscal year 2014, fiscal year 2015, and test year 2016. And the 2015 rate base and operating statement numbers must be updated to reflect actual data through December 2015.

IV. Procedural Outline

A. Administrative Law Judge

The administrative law judge assigned to this case is Jeanne M. Cochran. Her address and telephone number are as follows: Office of Administrative Hearing, 600 North Robert Street, St. Paul, Minnesota 55101 and (651) 361-7900. Her mailing address is P.O. Box 64620, St. Paul, Minnesota 55164-0620.

B. Hearing Procedure

- *Controlling Statutes and Rules*

Hearings in this matter will be conducted in accordance with the Administrative Procedure Act, Minn. Stat. §§ 14.57 – 14.62; the rules of the Office of Administrative Hearings, Minn. R. 1400.5100 to 1400.8400; and, to the extent that they are not superseded by those rules, the Commission's Rules of Practice and Procedure, Minn. R. 7829.0100 to 7829.3200.

Copies of these rules and statutes may be purchased from the Print Communications Division of the Department of Administration, 660 Olive Street, St. Paul, Minnesota 55155; (651) 297-3000. These rules and statutes also appear on the State of Minnesota's website at www.revisor.mn.gov/pubs.

The Office of Administrative Hearings conducts contested case proceedings in accordance with the Minnesota Rules of Professional Conduct and the Professionalism Aspirations adopted by the Minnesota State Bar Association.

- *Right to Counsel and to Present Evidence*

In these proceedings, parties may be represented by counsel, may appear on their own behalf, or may be represented by another person of their choice, unless otherwise prohibited as the unauthorized practice of law. They have the right to present evidence, conduct cross-examination, and make written and oral argument. Under Minn. R. 1400.7000, they may obtain subpoenas to compel the attendance of witnesses and the production of documents.

Parties should bring to the hearing all documents, records, and witnesses necessary to support their positions.

- *Discovery and Informal Disposition*

Any questions regarding discovery under Minn. R. 1400.6700 to 1400.6800 or informal disposition under Minn. R. 1400.5900 should be directed to Robert Harding, Financial Analysis Supervisor, Minnesota Public Utilities Commission, 121 7th Place East, Suite 350, St. Paul, Minnesota 55101-2147, (651) 201-2237.

- *Protecting Not-Public Data*

State agencies are required by law to keep some data not public. Parties must advise the administrative law judge if not-public data is offered into the record. They should take note that any not-public data admitted into evidence may become public unless a party objects and requests relief under Minn. Stat. § 14.60, subd. 2.

- *Accommodations for Disabilities; Interpreter Services*

At the request of any individual, this agency will make accommodations to ensure that the hearing in this case is accessible. The agency will appoint a qualified interpreter if necessary. Persons must promptly notify the administrative law judge if an interpreter is needed.

- *Scheduling Issues*

The times, dates, and places of public and evidentiary hearings in this matter will be set by order of the administrative law judge after consultation with the Commission and intervening parties.

- *Notice of Appearance*

Any party intending to appear at the hearing must file a notice of appearance (Attachment A) with the administrative law judge within 20 days of the date of this Notice of and Order for Hearing.

- *Sanctions for Non-compliance*

Failure to appear at a prehearing conference, a settlement conference, or the hearing, or failure to comply with any order of the administrative law judge, may result in facts or issues being resolved against the party who fails to appear or comply.

C. Parties and Intervention

The current parties to this case are the Company and the Department. Other persons wishing to become formal parties shall promptly file petitions to intervene with the administrative law judge. They shall serve copies of such petitions on all current parties and on the Commission. Minn. R. 1400.6200.

D. Prehearing Conference

A prehearing conference will be held on Monday, December 7, 2015, at 1:30 p.m., in the Large Hearing Room at the offices of the Public Utilities Commission, 121 Seventh Place East, Suite 350, St. Paul, Minnesota 55101-2147.

Persons participating in the prehearing conference should be prepared to discuss time frames, scheduling, discovery procedures, and similar issues. Potential parties are invited to attend the pre-hearing conference and to file their petitions to intervene as soon as possible.

E. Time Constraints

Minn. Stat. § 216B.16, subd. 2(a) authorizes the Commission to suspend proposed rates for ten months to permit adequate examination of their reasonableness. In addition, subdivision 2(f) grants up to 90 more days if the Commission finds that it has insufficient time to make a final determination due to the need to make determinations in other pending rate cases.

In its *Order Accepting Filing, Permitting Specific Salary Data to Remain Private, Extending Timelines, and Suspending Rates*, issued today in this docket, the Commission extended the suspension period in this case until October 31, 2016.

The Commission asks the Office of Administrative Hearings to conduct contested case proceedings in light of these time constraints and requests that the administrative law judge submit her final report on or before August 20, 2016. If the statutory due date for the final determination is extended beyond October 31, 2016, the Commission requests that the administrative law judge submit her report at least two and a half months before the extended due date.

V. Application of Ethics in Government Act

The lobbying provisions of the Ethics in Government Act, Minn. Stat. § 10A.01 et seq., apply to general rate cases. Persons appearing in this proceeding may be subject to registration, reporting, and other requirements set forth in that Act. All persons appearing in this case are urged to refer to the Act and to contact the Campaign Finance and Public Disclosure Board, telephone number (651) 296-1190, with any questions.

VI. Ex Parte Communications

Restrictions on ex parte communications with Commissioners and reporting requirements regarding such communications with Commission staff apply to this proceeding from the date of this Order. Those restrictions and reporting requirements are set forth at Minn. R. 7845.7300 – 7845.7400, which all parties are urged to consult.

VII. Notices Required; Delegation of Authority

Finally, the rate case statute and the Commission's rules require comprehensive notice of proposed general rate increases. Those notices are required in the ordering paragraphs below, and to promote administrative efficiency, the Commission will delegate to the Executive Secretary the authority to approve customer notices, bill inserts, and bill formats for the duration of this proceeding.

ORDER

1. The Commission hereby refers this case to the Office of Administrative Hearings for contested case proceedings, as set forth above.
2. If the Company's sales forecast changes, the Company shall promptly make updated filings reflecting the new per-dekatherm demand-cost-of-gas rate in both this docket and the base-cost-of-gas docket, G-011/M-15-748.
3. The Company shall file supplemental direct testimony explaining the significant adjustments to, and reductions in, Account 495–Other Gas Revenues, between the 2014 base year and the 2016 test year.
4. The Company shall file supplemental direct testimony, along with updated 2015 rate base and Operating Statement numbers including bridge schedules to the most recent fiscal year 2014, projected fiscal year 2015, and test year 2016. The 2015 rate base and operating statement numbers must be updated to reflect actual data through December 2015.

5. The Company shall promptly mail copies of this order to all municipalities, counties, and local governing authorities within its Minnesota service area.
6. Public hearings shall be held in this case at locations within the service area of the Company, including at least one public hearing in Albert Lea.
7. The Company shall give the following notices of the evidentiary and public hearings:
 - a. Individual written notice to each customer, which may be in the form of a bill insert, and shall be served at least ten days before the first day of hearings.
 - b. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases. These notices shall be mailed at least ten days before the first day of hearings.
 - c. Display advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area. These advertisements shall appear at least ten days before the first day of hearings. They shall include the heading **RATE INCREASE NOTICE**, which heading shall appear in bold face type no smaller than 30 points.
8. The Company shall submit proposed notices for Commission approval prior to publication or service.
9. The Commission delegates to the Executive Secretary the authority to approve customer notices, bill inserts, and bill formats for the duration of this proceeding.
10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary



This document can be made available in alternative formats (e.g., large print or audio) by calling 651.296.0406 (voice). Persons with hearing loss or speech disabilities may call us through their preferred Telecommunications Relay Service.

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS

600 North Robert Street St. Paul, Minnesota 55101
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East Suite 350 St. Paul, Minnesota 5101-2147

In the Matter of the Application of
Minnesota Energy Resources Corporation for
Authority to Increase Rates for Natural Gas
Service in Minnesota

OAH Docket No.
MPUC DOCKET NO. G-011/GR-15-736

NOTICE OF APPEARANCE

Name, Address, and Telephone Number of Administrative Law Judge: Jeanne M. Cochran,
Office of Administrative Hearings, 600 North Robert Street, St. Paul, Minnesota 55101 and
(651) 361-7900. Her mailing address is P.O. Box 64620, St. Paul, Minnesota 55164-0620.

TO THE ADMINISTRATIVE LAW JUDGE:

You are advised that the party named below will appear at the above hearing.

NAME OF PARTY:

ADDRESS:

TELEPHONE NUMBER AND E-MAIL ADDRESS:

PARTY'S ATTORNEY OR OTHER REPRESENTATIVE:

OFFICE ADDRESS:

TELEPHONE NUMBER:

SIGNATURE OF PARTY OR ATTORNEY: _____

DATE: _____

Notice to Counties and Municipalities, under Minnesota Stat. § 216B.16, Subd. 1

Re: Minnesota Energy Resource Corporation Request for Increase in Natural Gas Rates

On September 30, 2015, Minnesota Energy Resources Corporation (“MERC”) filed with the Minnesota Public Utilities Commission (the “Commission”) an application for a general increase in rates for natural gas services provided to customers in the State of Minnesota of \$14,846,380, or 5.47%, pursuant to Minn. Stat. § 216B.16.

In accordance with Minn. Stat. § 216B.16, subd. 2, the Commission has suspended proposed final rates to allow the Commission time to evaluate the application. In accordance with Minn. Stat. § 216B.16, subd. 3, the Commission has authorized an interim rate increase of \$9,749,729, or approximately 3.70% to be effective January 1, 2016. During this interim period, all MERC gas customers’ bills will be approximately 3.70% higher, and the rates will remain in effect until a final rate level is determined.

The chart below shows the effect of the interim and proposed rate change on monthly bills for customers with average gas usage. The interim monthly bill amount includes a 9.97% interim rate increase on distribution margins. Distribution margins include 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 3.70% higher than present bills because gas costs are not included in the calculation of the interim rate increase.

PROPOSED CHANGE IN AVERAGE MONTHLY BILLS – ALBERT LEA PGA

Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Interim Monthly Bill	Proposed Monthly Bill
General Service - Residential Sales	74	\$56	\$58	\$68
General Service - Small Commercial & Industrial Sales	64	\$46	\$48	\$68
General Service - Large Commercial & Industrial Sales	521	\$334	\$343	\$413
Small Volume Interruptible Sales	4,479	\$2,019	\$2,058	\$2,566
Large Volume Interruptible Sales	16,398	\$6,692	\$6,767	\$8,147
Small Volume Interruptible Transportation	3,068	\$470	\$517	\$603
Large Volume Interruptible Transportation – CIP Applicable	79,159	\$3,814	\$4,194	\$4,837

**The present rate levels identified in this application represent the rates authorized in Docket No. G011/PA-14-107.*

The Commission will determine the amount of increase in rates it will allow on or before October 31, 2016, and final rates reflecting that determination will be implemented thereafter. If the final rate level is less than the interim rate level, the amount collected during the interim period attributable to that difference will be refunded to customers with interest.

The proposed rate schedules and a comparison of present and proposed rates may be examined by the public during normal business hours at the Minnesota Department of Commerce, 85 7th Place East, Suite 500, St. Paul, Telephone: 651-539-1534; and at the following MERC offices located at:

301 2nd Street NW
Bemidji, MN 56601

910 Cloquet Avenue
Cloquet, MN 55720

304 North Park Street
Fairmont, MN 56031

3460 Technology Drive NW
Rochester, MN 55901

2665 145th Street West
Rosemount, MN 55068

They are also available at www.minnesotaenergyresources.com and on the Commission's website at <https://www.edockets.state.mn.us/EFiling/search.jsp>, under Docket Number G011/GR-15-736.

The Minnesota Department of Commerce - Office of Energy Security is conducting an investigation of MERC's books and records.

An Administrative Law Judge will schedule public hearings. Customers will be notified when the hearings are scheduled. Public notice of hearing dates and locations will be published in local newspapers in MERC's service area.

Persons who wish to formally intervene or testify in this case should contact the Administrative Law Judge, Minnesota Office of Administrative Hearings, P.O. Box 64620, St. Paul, MN 55101, Telephone: (651) 361-7900.

December 9, 2015

Notice to Counties and Municipalities, under Minnesota Stat. § 216B.16, Subd. 1

Re: Minnesota Energy Resource Corporation Request for Increase in Natural Gas Rates

On September 30, 2015, Minnesota Energy Resources Corporation ("MERC") filed with the Minnesota Public Utilities Commission (the "Commission") an application for a general increase in rates for natural gas services provided to customers in the State of Minnesota of \$14,846,380, or 5.47%, pursuant to Minn. Stat. § 216B.16.

In accordance with Minn. Stat. § 216B.16, subd. 2, the Commission has suspended proposed final rates to allow the Commission time to evaluate the application. In accordance with Minn. Stat. § 216B.16, subd. 3, the Commission has authorized an interim rate increase of \$9,749,729, or approximately 3.70% to be effective January 1, 2016. During this interim period, all MERC gas customers' bills will be approximately 3.70% higher, and the rates will remain in effect until a final rate level is determined.

The chart below shows the effect of the interim and proposed rate change on monthly bills for customers with average gas usage. The interim monthly bill amount includes a 9.97% interim rate increase on distribution margins. Distribution margins include 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 3.70% higher than present bills because gas costs are not included in the calculation of the interim rate increase.

PROPOSED CHANGE IN AVERAGE MONTHLY BILLS – CONSOLIDATED PGA

Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Interim Monthly Bill	Proposed Monthly Bill
General Service - Residential Sales	71	\$58	\$61	\$62
General Service - Small Commercial & Industrial Sales	89	\$75	\$79	\$81
General Service - Large Commercial & Industrial Sales	700	\$487	\$503	\$500
Small Volume Interruptible Sales	2,865	\$1,510	\$1,551	\$1,575
Large Volume Interruptible Sales	32,632	\$14,505	\$14,674	\$14,902
Small Volume Joint Sales	4,528	\$2,442	\$2,509	\$2,563
Small Volume Interruptible Transportation	9,611	\$1,052	\$1,157	\$1,246
Small Volume Joint Transportation	5,723	\$940	\$1,034	\$1,098
Large Volume Interruptible Transportation – CIP Applicable	91,847	\$4,514	\$4,964	\$5,611

Large Volume Joint Transportation-CIP Applicable	43,700	\$2,873	\$3,159	\$3,510
Super Large Volume Joint Transportation	382,450	\$4,535	\$4,664	\$4,928

**The present rate levels identified in this application represent the rates authorized in Docket No. G011/GR-13-617.*

The Commission will determine the amount of increase in rates it will allow on or before October 31, 2016, and final rates reflecting that determination will be implemented thereafter. If the final rate level is less than the interim rate level, the amount collected during the interim period attributable to that difference will be refunded to customers with interest.

The proposed rate schedules and a comparison of present and proposed rates may be examined by the public during normal business hours at the Minnesota Department of Commerce, 85 7th Place East, Suite 500, St. Paul, Telephone: 651-539-1534; and at the following MERC offices located at:

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Cloquet, MN 55720

304 North Park Street
Fairmont, MN 56031

3460 Technology Drive NW
Rochester, MN 55901

2665 145th Street West
Rosemount, MN 55068

They are also available at www.minnesotaenergyresources.com and on the Commission's website at <https://www.edockets.state.mn.us/EFiling/search.jsp>, under Docket Number G011/GR-15-736.

The Minnesota Department of Commerce - Office of Energy Security is conducting an investigation of MERC's books and records.

An Administrative Law Judge will schedule public hearings. Customers will be notified when the hearings are scheduled. Public notice of hearing dates and locations will be published in local newspapers in MERC's service area.

Persons who wish to formally intervene or testify in this case should contact the Administrative Law Judge, Minnesota Office of Administrative Hearings, P.O. Box 64620, St. Paul, MN 55101, Telephone: (651) 361-7900.

December 9, 2015

Notice to Counties and Municipalities, under Minnesota Stat. § 216B.16, Subd. 1

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In accordance with Minn. Stat. § 216B.16, subd. 2, the Commission has suspended proposed final rates to allow the Commission time to evaluate the application. In accordance with Minn. Stat. § 216B.16, subd. 3, the Commission has authorized an interim rate increase of \$9,749,729, or approximately 3.70% to be effective January 1, 2016. During this interim period, all MERC gas customers' bills will be approximately 3.70% higher, and the rates will remain in effect until a final rate level is determined.

The chart below shows the effect of the interim and proposed rate change on monthly bills for customers with average gas usage. The interim monthly bill amount includes a 9.97% interim rate increase on distribution margins. Distribution margins include 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 3.70% higher than present bills because gas costs are not included in the calculation of the interim rate increase.

PROPOSED CHANGE IN AVERAGE MONTHLY BILLS – NNG PGA

Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Interim Monthly Bill	Proposed Monthly Bill
General Service - Residential Sales	72	\$63	\$66	\$67
General Service - Small Commercial & Industrial Sales	85	\$78	\$81	\$83
General Service - Large Commercial & Industrial Sales	742	\$557	\$574	\$568
Small Volume Interruptible Sales	4,964	\$2,735	\$2,793	\$2,822
Large Volume Interruptible Sales	14,930	\$7,296	\$7,382	\$7,414
Small Volume Joint Sales	4,508	\$2,575	\$2,637	\$2,668
Small Volume Interruptible Transportation	13,186	\$1,394	\$1,534	\$1,668
Transport for Resale	22,118	\$1,887	\$2,076	\$2,090
Small Volume Joint Transportation	9,057	\$1,261	\$1,387	\$1,494
Large Volume Interruptible	71,735	\$3,561	\$3,916	\$4,412

Transportation – CIP Applicable

Large Volume Interruptible Transportation-CIP Exempt	615,696	\$13,255	\$14,577	\$18,555
Large Volume Joint Transportation- CIP Applicable	44,358	\$2,865	\$3,150	\$3,502
Large Volume Joint Transportation- CIP Exempt	637,125	\$18,331	\$20,159	\$24,741
Super Large Volume Joint Transportation	941,379	\$14,991	\$16,091	\$15,989
Super Large Volume Interruptible Transportation-CIP Exempt	1,515,614	\$6,589	\$6,633	\$8,134
Super Large Volume Interruptible Transportation-CIP Applicable	25,462	\$1,190	\$1,236	\$1,308

**The present rate levels identified in this application represent the rates authorized in Docket No. G011/GR-13-617.*

The Commission will determine the amount of increase in rates it will allow on or before October 31, 2016, and final rates reflecting that determination will be implemented thereafter. If the final rate level is less than the interim rate level, the amount collected during the interim period attributable to that difference will be refunded to customers with interest.

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December 9, 2015

