Memo

To: Darrell Nitschke

From: Mike Diller *Mike Diller*

Date: November 1, 2010

Re: Staff Analysis
Great Plains Natural Gas Co. Highway 13 Extension Project
Case No. PU-10-603

Great Plains Natural Gas Co. (Great Plains) proposes to extend natural gas service four miles west of Wahpeton to serve two interruptible customers and 10 potential firm customers along Highway 13. Under existing tariff rates, the project would not be viable without subsidization from existing ratepayers. Great Plains is not required to extend its gas distribution system more than 100 feet to serve new customers.

The proposed tariffs reflect an agreement reached with the two largest customers (Wil-rich and Giants Sunflower Seeds) who have committed to convert to interruptible natural gas service immediately. The purpose of the agreement is to hold existing customers harmless, both in terms of rates and availability of natural gas. The cost to extend service will be recovered through upfront cash contributions from the two interruptible customers and a surcharge of $0.90 per Mcf until all construction costs have been recovered. Any additional customers taking service from this line will be required to pay the surcharge until all costs have been recouped. According to Tamie Aberle, MDU estimates the recovery time to be around 10 years.

The proposed tariffs for interruptible and firm service associated with the Highway 13 Project contain the same provisions as do the general tariffs for the same kind of service for existing customers other than the addition of $0.90 per Mcf to the Distribution Delivery Charges and the provision for an annual evaluation. The purpose of an annual evaluation is to determine when the project costs have been recovered so that these special tariffs can be terminated. Therefore, staff recommends language such as "customers on this rate schedule will automatically be transferred to the applicable general tariff rate once extension costs have been fully recovered." MDU has agreed to revise its proposed tariffs.

Based on staff's review, the project will provide a source of energy to existing residents that is currently not available. MDU has structured the tariff and advance payments for construction so as to hold existing customers harmless. In the end, this expansion should add to the net margins earned on sales to the benefit of all customers served.

Staff recommends approval of MDU's revised tariffs and will include a motion to that effect on the commission's regular agenda, scheduled for November 3, 2010.