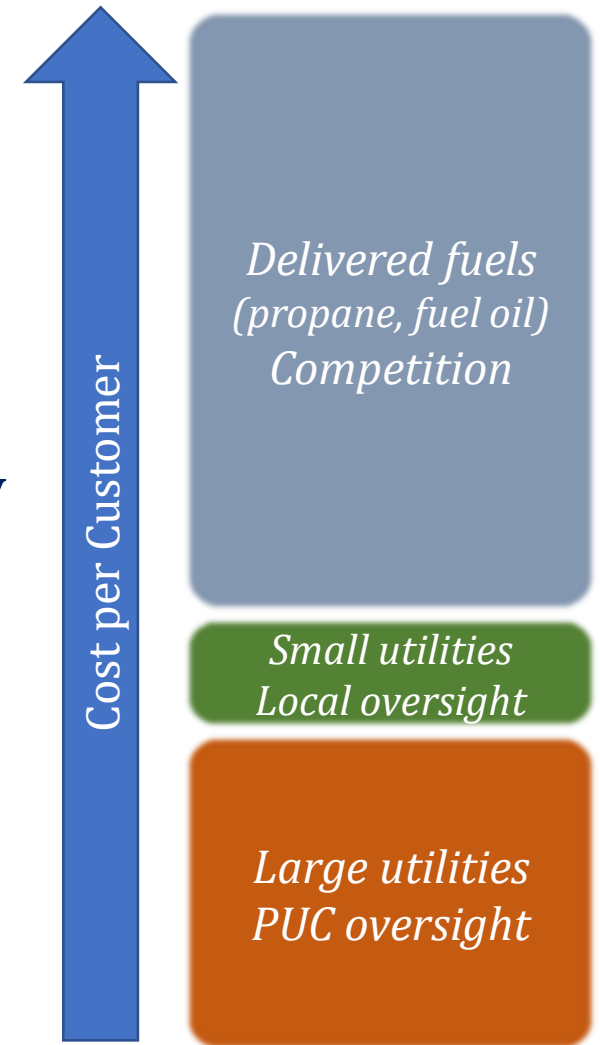


Proposed Revision to MS216B



Background – why the exemption?

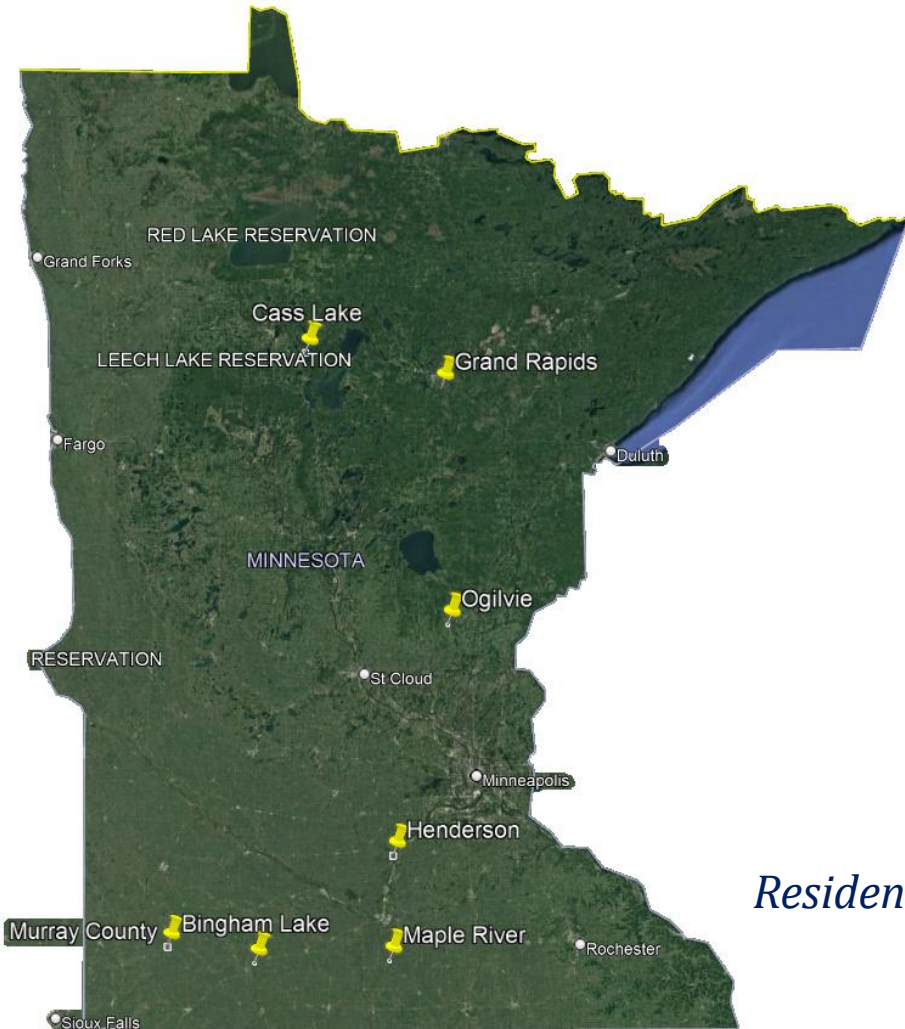
- MS 216B allows local oversight of natural gas rates for utilities that meet certain size criteria
 - Not more than 650 customers per town
 - Not more than 5,000 customers total
- When PUC first took on rate oversight, MN had a few small systems – PUC process did not fit
 - Higher cost to build system (distance to pipeline, population density)
 - Much smaller customer base
- Exemption was created for those small systems



Background – past revisions were ad hoc

- 1981 - MS 216B.02 Subd 4
 - “Public utility” redefined so that 216B didn’t apply to any gas utility serving less than 650 customers in a town if the town grants a franchise
- 1991 - MS 216B.16 Subd 12
 - Added exemption from Section 16 for utilities serving fewer than 650 customers in a town and fewer than 2,000 total, if the town requests it
- 1995 - MS 216B.16 Subd 12
 - Added exemption for rural service “incidental” to the town
- 2016 - MS 216B.16 Subd 12
 - Changed 2,000 total to 5,000 total

Why revisions are needed again



Gorham's Inc,
dba Northwest Gas

Cass Lake System
-314 customers

Grand Rapids System
-1,609 customers

1,923 customers

Northwest
Natural Gas, LLC

Maple River System
-1,178 customers

Henderson System
-421 customers

Ogilvie System
-158 customers

1,757 customers

*common
ownership*

Northwest Natural Gas
of Murray County, LLC

Murray County System
-1,231 customers

Bingham Lake System
-57 customers

1,288 customers

Combined: 4,968 customers

No system can grow without all losing their local rate oversight

*Residential retail rates vary by 55% between highest-cost and lowest-cost systems
(one-company, one-rate does not fit)*

What we're proposing – long-term fix

- Core issue is that the exemption applies to a *utility*, but the cost considerations are system-specific
 - Also: 650 per town kicks out many that would benefit from natural gas
- Solution: recast the exemption as applying to each *system*, rather than to a utility as a whole
 - Preserves the original intent of the exemption
 - Allows for local rate oversight to continue until a system grows to the point that it can bear the costs of PUC oversight
 - Allows other small systems owned/operated by the same utility to continue with local oversight, even if one grows into PUC oversight
- Change 5,000 per utility to 5,000 per system, and change 650 per town to 2,500 per town

Why support our proposal - Economic

- Provides a more affordable energy source for small towns
 - Over 200 have applied for service and are currently paying more for energy because we can't connect them
- Provides economic development for small communities
 - Slayton: has had new businesses come to town because of natural gas
 - Cass Lake: low energy cost was a factor for LLBO's new casino
- Other exempt small gas utilities in MN are not far behind – this will come up again if not addressed now

Why support our proposal - Environmental

- Natural gas is clean
 - Propane produces about 20% more CO₂ than natural gas
 - Fuel oil produces even more (heavier hydrocarbon)
- Natural gas is most efficient when burned by the end-user
 - Natural gas-fired electric generation for home heat produces between 60% and 150% more CO₂ than if the same heat is generated in residential natural gas furnaces
- Electricity from renewables cannot fully replace natural gas in the foreseeable future, especially for home heating
 - Natural gas will be needed when the electrical grid can't be sustained by wind, solar and/or hydro (evenings, nights, mornings)