IMPORTANT INFORMATION
about your natural gas rates

NEW NATURAL GAS RATES BEGIN WITH THIS BILL

For Customers Served by Viking Gas Pipeline

Refund On Interim Rates

State law allowed Minnesota Energy Resources to collect an interim (temporary) rate increase while the MPUC considered our rate request. The interim increase of $5.7 million or 2.46%, began on February 1, 2011. Since the final increase is greater than the interim rate increase, Minnesota Energy Resources will not refund or collect any difference between these amounts.

Reasons For The Increase

Minnesota Energy Resources requested this increase due to reduced sales, and increased costs for customer service functions and conservation programs.

How The Rate Change Will Affect Monthly Bills

The MPUC's July 13, 2012 Order will affect individual monthly bills differently depending on natural gas use and customer type. The 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 at our cost without adding any additional fees to the price. Your monthly bills will continue to vary due to changes in the wholesale cost of natural gas.

Please see inside for an explanation of how the changes will impact your natural gas bill.

For More Information

If you would like more information, please visit us online at **minnesotaenergyresources.com**, visit your local Minnesota Energy Resources customer service office, or call **800-889-9508**.

An Explanation Of Changes To Your Natural Gas Rates

On November 30, 2010, Minnesota Energy Resources-PNG (MERC-PNG) requested permission to increase its natural gas rates by approximately $13.7 million, or about 5.9%.

On July 13, 2012, the Minnesota Public Utilities Commission (MPUC) approved new natural gas rates for Minnesota Energy Resources customers. Overall, rates will increase approximately $9.9 million, or 4.7%, beginning January 1, 2013.

Under the MPUC's July 13, 2012 Order, the fixed customer charge for residential customers will increase from $7.25 to $8.50 per month, and the distribution charge will increase from $0.17746 to $0.19754. These rates are effective on January 2013 bills. Although the net effect on customers will vary by rate classification, the average residential customer using 65 therms of natural gas per month will see a $2.56 increase on their monthly bill.

Also, the MPUC approved MERC's request for a revenue decoupling mechanism for residential and small commercial customers. Revenue decoupling separates the link between the amount of revenue MERC collects from its customers and the amount of natural gas they use. Revenue decoupling allows MERC to adjust its rates up or down each year to make up for any shortfall or any excess in sales revenue. The purpose of revenue decoupling is to reduce MERC's disincentive to promote energy conservation and energy efficiency. The first annual revenue decoupling rate adjustment will appear on customer bills in 2014.

Finally, the MPUC approved MERC's request to simplify its rate structure to make all of the distribution rates and customer charges for all MERC-PNG and MERC-NMU customers in the same customer class equal. The Commission also allowed MERC to consolidate its four gas cost recovery rates into two. This consolidation will become effective with bills created in July 2013. One rate is for the majority of MERC's customers, who are served off of the Northern Natural Gas Company interstate natural gas pipeline. The other is for MERC's remaining customers who are served by three other interstate pipelines that bring gas to MERC's customers primarily from Canada.

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Change In Average Monthly Bills

This chart shows the effect of the rate change on monthly bills for MERC-PNG customers served off the Viking Pipeline with average gas use.

Customer Class	Average Monthly Usage (Therms)	Current Average Monthly Bill*	New Average Monthly Bill
General Service - Residential Sales	65	$56	$58
General Service - Small Commercial & Industrial Sales	67	$60	$65
General Service - Large Commercial & Industrial Sales	499	$376	$403
Small Volume Interruptible and Joint Sales	3,020	$1,836	$1,875
Large Volume Interruptible and Joint Sales	93,218	$46,411	$46,724
Transportation	11,808	$1,082	$1,101

Changes For Monthly Customer Charge And The Per Unit Gas Distribution Charge

This chart shows the effect of the current and authorized fixed customer charge and distribution charge for each MERC customer class.

Customer Class	Current Monthly Fixed Charge	Monthly Fixed Charge	Current Per Therm Distribution Charge	Per Therm Distribution Charge
Residential	$7.25	$8.50	$0.17746	$0.19754
Small Commercial & Industrial	$12.00	$14.50	$0.15022	$0.18525
Large Commercial & Industrial	$17.00	$35.00	$0.14984	$0.16868
Small Volume Interruptible & Joint	$80.00	$150.00	$0.11681	$0.10647
Large Volume Interruptible & Joint	$160.00	$175.00	$0.03248	$0.03568
Super Large Volume Interruptible & Joint	$160.00	$300.00	$0.00420	$0.00420
Transportation Administrative Fee*	$170.00	$70.00		

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