

FOR BOARD ACTION

Agenda Item # 9

Meeting Date:

5/27/08

SUBJECT:

Natural Gas Transportation Agreement &
Addendum to Gas Transportation Agreement – Election of Firm Transport Volume
Minnesota Energy Resources Corp.

PREPARED BY:

Rob Dunnette, Manager of Power Resources

ITEM DESCRIPTION:

Since the deregulation of the natural gas industry RPU has maintained a gas transportation agreement with the upper midwestern pipeline operator for natural gas transport service. (This service excludes the actual commodity purchase.) Minnesota Energy Resources Corporation is the current system operator.

MN Energy has submitted a proposed agreement for renewal of the existing service. The service agreement sets out the general terms and conditions of service. Specific pricing and volumes are set by rate tariff or addendum. The transportation agreement has an initial one year term, and then “evergreens” until terminated by either party (with six month notice). The last update of the form of agreement was approved by the Utility Board in May of 2001.

MN Energy has also submitted an addendum that identifies the volume of firm transportation service elected by RPU (200 Mcf) and the appropriate rate schedule. The addendum is renewed every year so that the volume can be adjusted, and the proper rate schedule identified.

MN Energy is the sole provider of natural gas transportation service in this area.

This service is essential to the operation of the Silver Lake Power Plant.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board approve a resolution requesting the Common Council to approve the proposed Natural Gas Transportation Agreement, and the Addendum electing a firm nomination of 200 Mcf per day, to provide the services as defined in the Addendum to Gas Transportation Agreement and the Daily and Monthly Balancing Services Contract.


General Manager

5/22/08
Date



Minnesota Energy Resources Corporation
1412 Howard Street
Omaha NE 68102
www.minnesotaenergyresources.com

May 12, 2008

Mr. Rob Dunnette
Rochester Public Utilities
4000 East River Rd NE
Rochester, MN 55906

Re: Execution Originals of a Gas Transportation Agreement and Addendum to Gas
Transportation Agreement

Dear Rob:

Enclosed for execution are four (4) originals of a Gas Transportation Agreement and an Addendum to the Gas Transportation Agreement for Firm Service. The changes you requested were completed.

Please advise if you have questions. I appreciate your assistance in finalizing this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Timerson", written over a circular stamp or seal.

Marc Timerson
Minnesota Energy Resources



**LARGE VOLUME TRANSPORTATION
SERVICE AGREEMENT
(Minnesota)**

This Agreement is entered into effective this ____ day of _____, 2008 by and between Minnesota Energy Resources Corporation ("Company") and Rochester Public Utilities ("Customer").

Whereas, Customer has obtained or will obtain supplies of natural gas and desires Company to receive such natural gas and transport and deliver such gas to Customer, and to provide certain other related services to Customer; and

Whereas, Company is willing to provide natural gas transportation and related services to Customer, subject to the terms and conditions set forth herein.

Now, therefore, in consideration of the above premises and the covenants contained herein, Company and Customer agree as follows:

1. **Availability:** Service under this Agreement is available to any non-general service customer who purchases gas supplies that can be transported on an interruptible or joint firm/interruptible basis by Company. Service will be provided on a firm basis contingent upon adequate system capacity and only if Customer has arranged firm transportation for such gas supplies on the interstate pipeline serving Company's distribution system and Customer has provided to Company a joint affidavit confirming this signed by Customer and, if applicable, Customer's gas supplier. Interruptible transportation is available only if Customer has and will maintain both the proven capability and adequate fuel supplies to use alternate fuel if Company's service to such Customer is interrupted. At Company's request, Customer must demonstrate that it has such capability and fuel supplies and a Human Needs Customer must provide an affidavit that it will maintain both the proven capacity and adequate full supplies. Customer represents that it meets the service availability requirements for transportation service under this Agreement.

2. **Service Considerations:** Service hereunder is provided by Company pursuant to its Transportation Rate Schedule, Sheet Nos. 14 through 14i and pursuant to the General Rules, Regulations, Terms and Conditions, all as contained in Company's Gas Tariff on file with the Minnesota Public Utilities Commission ("MPUC"), as the same may be amended, modified or superseded from time to time (the "Tariff"). Customer is responsible for reimbursing Company for all on-site plant investments, including telemetry equipment, installed by Company to provide

transportation service to Customer. Any such investment shall remain the property of Company. The telemetry equipment must be installed no later than 90 days after the commencement of natural gas service to Customer. Large volume seasonal, non-winter peaking customers whose annual volumes are less than 50,000 Mcf, may request, in writing, a waiver of the telemetry requirements.

3. **Charges:** Customer shall be responsible for and shall pay to Company the following charges for the periods indicated or as otherwise applicable:

Customer Charge: \$150.00 per month per account for administrative costs related to transportation, plus the monthly customer charge per account according to the applicable sales rate schedule for which Customer would otherwise qualify, subject to change as may be approved by the MPUC from time to time.

Daily Firm

Capacity Charge: If applicable, the amount is set forth in Customer's regular sales tariff schedule.

Commodity Charge: All volumes received by Customer hereunder shall be charged a rate equal to the tariff margin component of Company's rate set forth in Company's Tariff Sheet No. 17, Column D of Company's Tariff. In addition, Customer must pay for all fixed gas costs assigned to Customer in the regular sales tariff rate. Fixed gas costs could include but are not limited to the following: Daily Firm Capacity Charges and Annual Cost Adjustment Charges.

Additional costs will be assigned as they are authorized by the FERC or the MPUC to be charged for transportation services, including but not limited to take-or-pay costs, TCR costs, and GRI costs. In addition, all volumes delivered from system gas supply shall be charged the rate set forth in the appropriate Company's sales tariff schedule.

Optional Services: The following services, described in Company's Tariff Sheet 14g, are available at Customer's option:

Firm Backup Sales Service

Aggregation Services

Customer has initialed which of the above listed optional services, if any, is desired by Customer and agrees to pay the charges associated therewith according to and as set forth in Company's

Tariff. Customer shall, upon request of Company, execute such agreements, as Company deems necessary or appropriate to effectuate the above services.

4. **Term:** This Agreement shall remain in effect for a primary term of 1 (one) year from the date service commences hereunder, and thereafter from year to year until canceled by either party on six (6) months prior written notice to the other party.

5. **Balancing:** Customer agrees that nominated volumes and actual receipt and delivery volumes must balance. Customer is responsible for: (a) providing nominations which accurately reflect Customer's expected consumption, and (b) balancing volumes consumed at the delivery points with deliveries to Company's system. Failure to fulfill these responsibilities will result in Customer incurring balancing and/or scheduling charges described in Company's Transportation Rate Schedule, which charges shall be in addition to any Company charges, and which charges shall change as the interstate pipeline changes its rates.

7. **Pipeline Charges; Capacity Assignment:** Any charges which Company incurs from a pipeline on behalf of Customer will be passed through to Customer. Such charges may include but are not limited to any other charges referenced in Sections 5 and 8 of this Agreement.

8. **Nominations:** If Customer desires volumes to flow on the first day of the month, Customer must directly advise Company's Gas Supply Services Division, by facsimile or telephone notice at the address and telecommunications numbers provided in Section 10, by 9:00 a.m. (Central Clock Time) five (5) working days prior to the end of the preceding month of the volumes to be delivered on Customer's behalf.

For intra month nomination changes, to be effective at 9:00 a.m. (Central Clock Time), Customer must directly advise Company's Gas Supply Services Division by 9:00 a.m. (Central Clock Time) on the day preceding the effective date of the nomination change. Intra day nominations will be accepted by Company on a best efforts basis, until 3:00 p.m. (Central Clock Time) on the day of gas flow if the nomination is confirmed by the interstate pipeline.

9. **Penalty for Unauthorized Takes When Service is Interrupted or Curtailed:** If Customer fails to curtail its use of gas hereunder when requested to do so by Company, Customer shall be billed at the transportation charge, plus the costs of gas Company secures for Customer, plus the greater of either pipeline daily delivery variance charges (see Sheet 25 of Company's Tariff) or \$10 per Mcf for gas used in excess of the volumes of gas to which Customer is limited. Company may in addition disconnect Customer's supply of gas in the event of Customer's failure to curtail its use thereof when requested by Company to do so (see Sheet 14i of Company's Tariff).

10. **Billing and Payment:** Bills shall be calculated in accordance with the applicable rate schedule each month and shall be payable monthly. Upon request, Company shall give Customer the approximate date on which Customer should receive its bill each month, and if a bill

is not received or is lost, Company shall, upon request, issue a duplicate. Failure to receive a bill shall not relieve Customer from payment.

The bill shall be considered rendered to Customer when deposited in the U.S. Mail with postage prepaid. If delivery is by other than U.S. Mail, the bill shall be considered rendered when delivered to the last known address of the party responsible for payment. Bills become delinquent if not paid within seventeen (17) days after rendering of the bill. When Customer payments are made by mail, bills will be considered as having been paid on the date of mailing as shown by postmark.

Late payment penalties are assessed on the past due amount and shall not exceed one and one-half percent (1½%) per month of the past due amount. The penalty date shall be not less than seventeen (17) days after the rendering of the bill and shall be considered to have expired at office opening time of the next day after the date indicated on the bill. Mail payments are considered to have been paid on the date of the postmark. If the penalty date falls on a Saturday, Sunday or holiday, it will be extended to the next normal working day before the penalty is assessed.

10. **Notices:** Notices required or otherwise given under this Agreement, except notices specifically allowed to be provided by facsimile, shall be given in writing and mailed by first class mail to the other party at the addresses provided below:

Company:	Customer:
Minnesota Energy Resources Corporation Attention: Marc Jimerson Address: 1412 Howard Street Omaha, NE 68102 Telephone: 402-505-7646 Fax: 402-614-0592	Company: Rochester Public Utilities Attention: Mr. Rob Dunnette Address: 4000 East River Rd NE Rochester, MN 55906-2813 Telephone: 507-292-1205 Fax: 507-280-1651 Email: rdunnette@rpu.org

11. **Regulatory Commission Authority:** The provisions of this Agreement are subject to Company's Tariff, all valid legislation with respect to the subject matter hereof and to all present and future orders, rules, and regulations of the MPUC and any other regulatory authorities having jurisdiction over (i) the transportation of natural gas contemplated hereunder, or (ii) the construction and operation of any facilities required to deliver said natural gas. Customer agrees that Company shall have the right to unilaterally make and to file with any and all regulatory bodies exercising jurisdiction, now or in the future, changes in rates or new rates or any other changes to Company's Tariff, and that Customer shall be bound by such changes or new

rates as are approved by such regulatory bodies. In the event of any conflict between the terms of this Agreement and the Tariff, the Tariff shall control.

12. **Acknowledgement of Transportation Risks:** Customer hereby acknowledges and accepts the following risks and requirements associated with transporting gas:

- (a) the risk that unless Customer buys firm backup sales service from Company, Company is not obligated to supply gas to Customer;
- (b) the risk that Customer may incur penalties for unauthorized takes described in Section 14 of Company's Tariff Sheet No. 14i, balancing and scheduling charges pursuant to Section 7 of Company's Tariff Sheet No. 14c, and any charges Company incurs from the pipeline on behalf of Customer; and
- (c) that Customer must stop using gas when notified by Company or by Customer's gas supplier of any interruption affecting Customer's gas supply or transportation service.

13. **Entire Agreement:** This Agreement and Company's Tariff constitute the entire agreement of the parties with respect to the subject matter hereof, and supersedes and replaces all other prior or contemporaneous agreements between the parties regarding such subject matter.

The parties have executed this Agreement as evidenced by their signatures below.

Minnesota Energy Resources Corporation

Rochester Public Utilities
Account #: 4258760

By: _____

See Attached Signature Form

Name: _____

Title: _____



ELECTION OF FIRM TRANSPORTATION
ADDENDUM TO
GAS TRANSPORTATION AGREEMENT
(MINNESOTA)

This Addendum is made and entered into as of the 1st day of April, 2008 by and between Minnesota Energy Resources Corporation ("Company"), and Rochester Public Utilities ("Customer")

Company and Customer have entered into a Gas Transportation Agreement (the "Agreement") and now desire to amend certain provisions of the Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants of the parties contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree and acknowledge their execution of that Agreement and desire and agree that the following terms shall become a part of the Agreement by this Addendum as if originally included in the Agreement.

1. Customer agrees to suspend its current Interruptible Gas Transportation service and to convert to transportation service under the "Firm" Transportation Rate Schedule specified below for the Winter Period (November-March) or Periods identified below. During each Winter Period, Company will transport Customer's natural gas supplies on a "Firm" basis on Company's distribution system in accordance with the tariff rules and regulations applicable to Company's Firm Transportation customers in the State of Minnesota. Customers shall pay all applicable Firm Transportation rates, fees, and other charges associated with the Firm Transportation service provided to Customer. At the end of the term of this Addendum as specified below, Customer will revert to its original Interruptible Transportation Service and associated rates, terms, and conditions as set forth in the Agreement.

Customer's Interruptible Transportation Rate Schedule: LVI

Customer's Applicable Firm Transportation Rate Schedule during the term of this Addendum: LVJ

Units of Firm: 200 Mcf

Term of Addendum: April 1, 2008 through March 31, 2009

2. As amended by this Addendum, the Agreement is ratified and remains in full force and effect.

3. In the event of any inconsistencies between the terms and provisions of this Addendum, the terms and provisions of the Agreement, and the terms and provisions of the Company's Tariff on file with the Minnesota Public Service Commission, the terms and provisions of the Company's Tariff shall control

The parties have executed this Agreement as evidenced by their signatures below

Minnesota Energy Resources Corporation

Rochester Public Utilities
Acct #: 4258760

By: _____

See Attached Signature Form

Title: _____

Dated: _____

ROCHESTER PUBLIC UTILITIES

General Manager

CITY OF ROCHESTER

Mayor

Attest:

City Clerk

Reviewed By:

City Attorney



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve a contract agreement with Minnesota Energy Resources and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

Large Volume Gas Transportation Service Agreement, and the Addendum electing a firm nomination of 200 Mcf per day, to provide the services as defined in the Addendum to Gas Transportation Agreement and the Daily and Monthly Balancing Services Contract.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 27th day of May, 2008

President

Secretary