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December 10, 2018

**VIA ELECTRONIC FILING**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, MN 55101

Re: In the Matter of Petition of Minnesota Energy Resources Corporation for Approval for Recovery of Natural Gas Expansion Project Costs through a Rider and for Approval of a New Area Surcharge for the Pengilly Project, Docket No. G011/M-18-460

Additional Reply Comments of Minnesota Energy Resources Corporation

Dear Mr. Wolf:

On June 29, 2018, Minnesota Energy Resources Corporation ("MERC" or the "Company") filed a Petition in the above-referenced docket requesting approval of a Natural Gas Extension Project Rider ("NGEP Rider") and a New Area Surcharge ("NAS") for the Pengilly Project. MERC proposed an NGEP Rider surcharge of \$0.00013 per therm over a one-year period based on the net present value of the NGEP allocation.

Through subsequent rounds of comments filed by MERC and the Department of Commerce, Division of Energy Resources (the "Department") on October 29, 2018; November 7, 2018; and November 30, 2018, the Company and the Department have reached agreement regarding all issues with the exception of whether the portion of Project costs recovered through the NGEP Rider should be recovered over a single year based on the net present value of the NGEP portion of Project costs at a surcharge rate of \$0.00013 per therm or over the useful life of the extension Project (48 years) at a surcharge rate of \$0.00001 per therm.

MERC thanks the Department for its analysis and review. Ultimately, the Company believes the Commission has discretion under the terms of the NGEP statute to approve either MERC's or the Department's methodologies; however, MERC continues to conclude that the Company's proposed calculation based on the net present value of the NGEP Project costs recovered over one year using a surcharge rate of \$0.00013

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most reasonably balances ratemaking considerations with practical and administrative considerations in light of the materiality of the costs proposed for recovery through the NGEF Rider surcharge. MERC's proposal would result in an average annual Residential rate impact of \$0.11 in the single year the NGEF portion of the Project is recovered. In contrast, the Department's recommendation to apply a surcharge rate of \$0.00001 per therm until the rider costs are incorporated into base rates in a future rate case would result in an average annual Residential rate impact of less than one penny. Because MERC bills customers on a monthly basis, even in the highest usage winter months, the surcharge would be so small (fractions of one penny) as to not show up on most Residential customer bills. Approval of that approach would require MERC to reevaluate whether to proceed with the Project in light of the challenges of implementing such a small surcharge.

As discussed in MERC's petition, in proposing to recover a portion of Project costs through an NGEF Rider surcharge of \$0.00013 per therm over one year, MERC sought to address the concerns raised by Commission staff regarding the recovery of proposed Project costs over a single year with the Esko and Balaton projects while recognizing that spreading recovery over the useful life of the Project would result in a surcharge and bill impacts that are so small in some cases they are difficult to administer. The result of MERC's proposed net present value methodology is to reduce the overall amount collected by the Company over a single year to reflect the time value of money, reducing the impact to customers and recognizing the value of collecting the costs for ratepayers in a single year rather than over the useful life of the Project. MERC recognizes that approval of the proposed recovery over a single year on a net present value basis as proposed for the Pengilly Project would not obligate the Commission to approve the same methodology in future NGEF Rider proposals. The Commission has broad authority to evaluate the design of any future NGEF Rider surcharge rates on a case-by-case basis. In this case, however, MERC concludes that the balancing of various considerations presented weighs in favor of the Company's proposed methodology.

Please contact me at (920) 433-2926 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely,

/s/ Seth DeMerritt

Seth DeMerritt  
Senior Project Specialist  
Minnesota Energy Resources Corporation

cc: Service List

In the Matter of the Petition of Minnesota Energy  
Resources Corporation for Approval of a New  
Area Surcharge for the Pengilly Project

Docket No G011/M-18-460

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 10th of December, 2018, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Reply Comments on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 10th day of December, 2018.

/s/ Kristin M. Stastny  
Kristin M. Stastny

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