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June 6, 2014

VIA ELECTRONIC FILING

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: Minnesota Energy Resources Corporation Reply Comments
Docket No. G007,011/GR-10-977

Dear Dr. Haar:

Minnesota Energy Resources Corporation (MERC) submits these Reply Comments in response to the Comments filed by the Department of Commerce, Division of Energy Resources (the Department) on May 27, 2014. MERC appreciates the Department's review and comments.

The Department, in its comments, recommended that the Commission allow MERC to continue assessing its decoupling adjustment and approve MERC's annual decoupling adjustment. The Department also requested that MERC provide additional information in reply comments and in future filings. MERC responds to each of the Department's specific requests below.

First, the Department requested that MERC include, in its reply comments, an updated Attachment 3, page 2 from MERC's Decoupling Evaluation Report, to remove reported negative sales and present the figures in a manner consistent with how sales were determined in MERC's pending general rate case. The data provided in Attachment 3 to the March 27, 2014 filing reflects the amounts MERC actually books to its general ledger each month. The negative values are a result of MERC's unbilled process.¹ While MERC has revised its method for

¹ At a high level, MERC's unbilled process performs a calculation of the daily gas usage for each grouping of customers by rate code, based on the actual billing data from the most recent billing cycle prior to the end of the month. The daily usage amounts are then applied to the number of days from the billing cycle date to the end of the month to calculate unbilled sales. The current month unbilled sales calculation is posted to MERC's general ledger. MERC also reverses the previous month's unbilled sales entry, as those sales are no longer estimates and captured in MERC's actual billing data. The calendar month sales recorded for a month represent the current month's billed sales, plus the current month unbilled sales, less the prior month's unbilled sales. Negative net calendar month sales can occur when we come out of the cold winter months into the warmer spring and summer months. The reversal of the previous month's unbilled sales, which was calculated on higher use per customer because of the colder

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correcting customer bills for the purpose of its sales forecasts, MERC continues to account for billing adjustments in the months the adjustment took place. MERC has not changed its billing system and has not made any changes to how it accounts for unbilled sales and billing errors. The changes the Department references in its comments relate to sales forecasting only. To modify actual sales for purposes of MERC's decoupling mechanism to reflect anything other than amounts actually booked would not accurately reflect MERC's sales. Therefore, MERC believes it would not be appropriate to provide an amended version of Attachment 3, page 2 of the Decoupling Evaluation Report.

Second, the Department requested that MERC file, by June 30, 2014, an estimate of revenues that would have been collected for each year 2009-2013 for each of MERC's rate customer classes under the following assumptions:

- a. No decoupling;
- b. Xcel's proposed partial revenue per customer decoupling mechanism; and
- c. Full decoupling.

Specifically, the Department requested that MERC provide data assuming the decoupling rate adjustment is implemented on a monthly and annual basis and requested that MERC estimate the surcharge or deferral based on low gas usage, high gas usage, and average gas usage.

Based on conversations with the Department, MERC understands that the Department intended the term "full decoupling" to mean MERC's currently approved pilot decoupling program. MERC notes that its approved decoupling mechanism applies only to Residential and Small Commercial & Industrial customer classes. Moreover, MERC's decoupling mechanism includes a symmetrical ten percent cap. For purposes of the information requested, MERC will assume decoupling applies to all rate classes. Additionally, MERC understands Xcel's proposed partial revenue per customer decoupling mechanism excludes weather effects (i.e., a revenue-per-customer decoupling mechanism that removes the effect of weather from decoupling deferrals). MERC will provide the requested information in a separate filing by June 30, 2014.

Third, the Department requests that the Commission require MERC to provide, in its next annual Decoupling Evaluation Report, an estimate of the revenues that would have been collected from all of its customer classes in 2014 assuming the same three scenarios. MERC agrees that it will provide this information in its next annual Decoupling Evaluation Report filing.

The Department notes that the Commission may want to consider removing the ten percent cap from MERC's decoupling mechanism. MERC is open to removing the cap as long

temperatures, can be greater than the sum of the current month billed sales plus the current month unbilled sales.

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as it is symmetrical (i.e., the cap is removed with respect to both refunds and surcharges) and any change is prospective only for future years. Specifically, for planning purposes, MERC requests that any change to the cap not be effective before January 1, 2015.

Finally, MERC requests that the Commission modify the deadline for MERC's future Decoupling Evaluation Reports to May 1 of each year to coincide with MERC's Conservation Improvement Program (CIP) Status Report filing. Much of the information included in MERC's Decoupling Evaluation Report is duplicative of what is filed in MERC's May 1 CIP Status Report. The ability to prepare and submit the decoupling evaluation in conjunction with the CIP Status Report would help streamline MERC's filings and ensure consistency across MERC's dockets.

Please contact me at 612-340-2881 if you have any questions regarding this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 6th day of May, 2014, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of MERC's Decoupling Evaluation Report Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny
Kristin M. Stastny

Subscribed and sworn to before me
This 6th day of May, 2014.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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