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January 13, 2012

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's (MERC's) Demand Entitlement
Petition for Approval of a Change in Demand Rates on its Viking Transmission
Purchased Gas Adjustment (PGA)

Docket No. G011/M-11-1083

MERC Reply Comments

Dear Dr. Haar:

On January 10, 2012, the Department of Commerce, Division of Energy Resources filed
Comments recommending that the Minnesota Public Utilities Commission (Commission):

- accept the Company's peak-day analysis;
- accept the Company's proposed level of demand entitlement;
- allow the proposed recovery of associated demand costs effective November 1,
2011, as allocated in column B of Table 1, as shown below; and
- require MERC to file its annual demand entitlement filing on August 1, on a
going-forward basis.

MERC agrees with the Department's recommendations regarding its Viking Demand
Entitlement Petition with the exception of the Department's recommendation regarding the
recovery of gas storage costs.

The Department has consistently recommended, beginning in Dockets G011/M-08-1328
and G011/M-09-1285, that the Commission require MERC to include certain storage costs in
the commodity portion of the PGA rather than the demand portion. Table 1 below, taken from
page three of the Department's Comments, shows the changes in the average annual total cost
of gas in the November PGA compared with the October PGA in two scenarios: Column A –
storage costs included in the demand portion of the PGA, and Column B – storage costs

included in the commodity portion. The Department recommends that the Commission approve the recovery of demand costs as allocated in column B of Table 1.

Table 1: Changes in Average Annual Total Cost of Gas⁶ – Storage Cost Treatment

Customer Class	(A) Storage Costs Included in Demand Charge⁷	(B) Storage Costs Included in Commodity Charge⁸
General Service Residential 82 Dkt Annual Use	\$17.35	\$12.40
General Service 3,859 Dkt Annual Use	\$1,149.84	\$2,319.66
Small Volume Firm/Interruptible 2,860 Dkt Annual Use	\$852.18	\$1,719.16
Large Volume Interruptible 89,334 Dkt Annual Use	\$26,618.34	\$53,699.02

MERC agrees certain storage costs should be included in the commodity portion of the PGA. In Docket No. G011/M-07-1405, the demand entitlement docket for its Northern Natural Gas Transmission System, MERC proposed to include storage costs in the commodity rate rather than the demand rate. In Comments dated June 12, 2008, the Department agreed with MERC's proposal. The Commission has not issued a decision in that docket and has not approved MERC's proposal to shift storage costs from the demand portion of rates to the commodity portion of rates. MERC therefore has not implemented its proposal in the monthly PGA because it is awaiting Commission approval of this change. MERC will adjust the recovery of costs accordingly when the Commission issues a decision requiring such adjustment. In the event the Commission decides to require the adjustment, MERC requests a reasonable time frame in which to make the adjustment and that the adjustment be made on a forward, not retroactive, basis.

The Department also requested that MERC provide additional information regarding the discovery the Department issued to each regulated Minnesota gas utility in November 2011 regarding the annual demand entitlement filing timeline and the reasonableness of acquiring capacity contracts for the upcoming heating season in excess of the amount estimated by the design-day analysis. Specifically, the Department requests that MERC provide a response to Interstate Power and Light's (IPL's) proposed procedure for demand entitlement filings.

In its response to the Department's discovery requests, IPL proposed that the demand entitlement filing be moved up to July 1 each year with a follow-up final filing due on November 1. MERC responds that it will not be able to comply with an initial deadline of July 1. MERC is currently working to ensure that its regression and peak-day analyses are completed by July 1 to comply with the Department's recommended initial filing date of August 1. MERC is unable to comply with the July 1 deadline IPL proposes.

January 13, 2012
Page 3

Regarding additional and reserve capacity, IPL pointed out that it is important to hold approximately five percent reserve margin to ensure reliability for customers because of forecasting variances. MERC does not have daily reads for all customer classes and agrees that a five percent reserve margin is necessary and reasonable.

Regarding phased in capacity and excess capacity costs, MERC utilizes the capacity release market to address excess capacity. IPL reports that it primarily relies on temporary non-recallable capacity releases to alleviate the issue of excess capacity. MERC could explore the use of non-recallable capacity releases, but it would only do so for volumes in excess of the positive five percent reserve.

In conclusion, MERC agrees with the Department's recommendations to approve MERC's GLGT Demand Entitlement Petition. Additionally, MERC is willing to further discuss with the Department the proposed changes in procedure to the demand entitlement filings.

Please feel free to contact me at (612) 340-2881 if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Amber S. Lee hereby certifies that on the 13th day of January, 2012, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the 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/Amber S. Lee
Amber S. Lee

Subscribed and sworn to before me
this 13th day of January, 2012.

/s/ Sara Garcia
Notary Public, State of Minnesota

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