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October 30, 2017

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 the Petition of Minnesota Energy Resources Corporation for Approval of a New Base Cost of Gas for Interim Rates

Docket No. G011/MR-17-564

Dear Mr. Wolf:

On October 23, 2017, the Department of Commerce, Division of Energy Resources ("Department") filed Comments in the above-referenced docket, recommending that the Minnesota Public Utilities Commission ("Commission") approve Minnesota Energy Resources Corporation's ("MERC's or the "Company's") base cost of gas filing for a new base cost of gas to be effective with interim rates proposed in Docket No. G011/GR-17-563, and requesting that MERC provide additional information in Reply Comments. MERC thanks the Department for its review and submits these Reply Comments to respond to the Department's recommendations and requests for additional information.

First, the Department requests that MERC provide the following additional information in its November 1, 2017 update filing to the MERC-NNG Demand Entitlements in Docket No. G011/M-17-588:

1. A reconciliation and explanation of changes proposed in Docket No. G011/M-17-588 (MERC-NNG's 2017-2018 Demand Entitlement) to the information included in MERC's October 1, 2017 Purchased Gas Adjustment ("PGA") filing in Docket No. G011/AA-17-703; and
2. An update on the status of the replacement for MERC's AECO storage contract.

MERC agrees to provide the requested information in its November 1, 2017 update to the MERC-NNG Demand Entitlement filing but notes that with respect to the requested reconciliation between the October 1 PGA and November 1 Demand Entitlement, the requested changes to MERC's 2017-2018 Demand Entitlements in Docket No. G011/M-17-588 are proposed effective November 1, 2017. Therefore, the changes would not be reflected in the October PGA. Additionally, MERC's August 1, 2017 Demand Entitlement

filing schedules comparing the 2016-2017 demand costs to the proposed 2017-2018 demand costs only included the NNG costs for 2016-2017, whereas both the MERC-NNG and MERC-Albert Lea (now the consolidated MERC-NNG PGA) costs were included in the 2017-2018 demand costs. The following updated comparison includes the total demand costs for the consolidated NNG PGA between 2016-2017 and 2017-2018.

2016/17 Total Annual Cost	2016/17 Albert Lea Cost	2017/18 Total Annual Cost	Net Annual Cost Change
\$2,037,100	\$161,481	\$2,517,552	\$318,971
\$1,584,318	\$373,663	\$1,957,981	\$0
\$3,304,978	\$432,342	\$3,304,978	(\$432,342)
\$2,445,543	\$302,833	\$2,748,375	\$0
\$467,694		\$467,694	\$0
\$1,250,434		\$1,250,434	\$0
\$11,366		\$11,366	\$0
\$11,366		\$11,366	\$0
\$6,204,244	\$60,612	\$6,264,856	\$0
\$90,288		\$90,288	\$0
\$74,886		\$74,886	\$0
\$543,107		\$543,107	\$0
\$1,087,553		\$1,087,553	\$0
\$9,217		\$9,217	\$0
\$66,895		\$66,895	\$0
\$1,679,619		\$1,679,619	\$0
\$0		\$0	\$0
\$103,560		\$103,560	\$0
<u>\$20,972,169</u>	<u>\$1,330,930</u>	<u>\$22,189,728</u>	<u>(\$113,370)</u>

With respect to updated information regarding the status of the replacement for MERC's AECO storage contract, MERC agrees it will provide an update in Docket No. G011/M-17-587 once it makes a decision on how to proceed with replacement storage; however, at this time, the Company does not anticipate having a decision until the first quarter of 2018. MERC will include this anticipated timeline and commitment to provide an update in its November 1, 2017 Demand Entitlement update in Docket No. G011/M-17-587.

Second, the Department recommends that with respect to this proceeding, the Commission require MERC to:

1. Submit updated cost of gas information (both in this docket and in Docket No. G011/GR-17-563) based on timing determined in consultation with the Department and Commission staff;
2. Ensure the demand costs submitted in any update are consistent with those filed in MERC's 2017-2018 Demand Entitlements, Docket Nos. G011/M-17-587 and G011/M-17-588; and
3. File, in a red-line format, any and all of the affected testimony, schedules, work papers, and informational requirements that are impacted as a result of changes to its cost of gas. In addition, MERC should provide the citation(s) and references to these associated changes [that are contained in Docket 17-563 (Rate Case)] in its BCOG Update write-up in Docket 17-564.

Regarding the filing of an update to NYMEX prices in this proceeding, as outlined in the Direct Testimony of MERC witness Mr. Seth DeMerritt, MERC agrees to update NYMEX prices for its base cost of gas but we note that we would prefer to update the NYMEX numbers only once during the course of these rate case proceedings. In terms of timing, MERC agrees that it will work with the Department and Commission staff to determine the appropriate timing for the NYMEX pricing update. In the past, the parties have agreed to an update prior to Surrebuttal testimony. In MERC's last rate case, for example, MERC submitted an update with Rebuttal Testimony on April 12, 2016.

With respect to the Department's recommendation that MERC ensure its demand costs, as reflected in any base cost of gas update, are consistent with data submitted in MERC's 2017-2018 Demand Entitlements, Docket Nos. G011/M-17-587 and G011/M-17-588, MERC agrees to ensure its demand costs are consistent with its 2017-2018 Demand Entitlement filings.

Finally, with respect to the Department's recommendation that MERC "file, in a red-line format, any and all of the affected testimony, schedules, work papers, and informational requirements that are impacted as a result of changes to its cost of gas," MERC agrees to provide updates in the same manner as it has in the past including information and a narrative explanation of the impacts of the updated base cost of gas on (1) bad debt expense, (2) interest synchronization, and (3) gas storage. However, the request to refile in red-line all testimony, schedules, work papers, and informational requirements would not be reasonable or appropriate in light of the minor impacts that would occur on a significant portion of MERC's initial filing and the limited value, if any, those re-filed documents would provide to the parties evaluation of MERC's proposed rate increase. Rather than submitting a redline of all potentially impacted testimony, schedules, and workpapers, as proposed, MERC would propose to identify the ratemaking impacts to bad debt, interest synchronization, and gas storage attributable to the updated BCOG pricing. Other minor changes will be updated and reflected in MERC's final compliance filing based on the final approved base cost of gas. MERC believes this approach will more reasonably accomplish the goal of ensuring information is made available regarding the impacts of updates to gas prices on the proposed rates in Docket No. G011/GR-17-563.

Mr. Daniel P. Wolf
October 30, 2017
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Please contact me at (651) 322-8965 if you have any questions.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

cc: Service List

In the Matter of the Petition of Minnesota
Energy Resources Corporation for Approval
of a New Base Gas Cost for Interim Rates

Docket No. G011/MR-17-564

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 30th of October, 2017, on behalf of Minnesota Energy Resources Corporation, I electronically filed a true and correct copy of the enclosed Reply Comments on www.edockets.state.mn.us. Said document was also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 30th of October, 2017.

/s/ Kristin M. Stastny
Kristin M. Stastny

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