MINNESOTA ENERGY RESOURCES

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October 26, 2015

VIA ELECTRONIC FILING

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

Re: Reply Comments of Minnesota Energy Resources Corporation, In the Matter of the Petition of Minnesota Energy Resources Corporation-Northern Natural Gas for Approval of a Change in Demand Entitlement

Docket No. G011/M-15-723

Dear Mr. Wolf:

On October 15, 2015, the Minnesota Department of Commerce, Division of Energy Resources ("Department") filed Comments in the above referenced docket recommending that the Commission accept Minnesota Energy Resources Corporation's ("MERC") Northern Natural Gas ("NNG") system peak-day analysis and approve MERC-NNG's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2015. Additionally, the Department requested that MERC provide a detailed explanation in Reply Comments of how it manages its non-heating season capacity given the fact that it appears to have a non-heating season capacity shortfall.

MERC thanks the Department for its review and submits these Reply Comments in response to the Department's Comments.

First, with respect to non-heating season capacity, the Department notes that Attachment 3 of MERC's petition appears to indicate a capacity shortage for the non-heating season of 33,090 MMBtu. The Department requests that MERC provide a detailed explanation of how it manages its non-heating season capacity given the fact that it appears to have a non-heating season capacity shortfall. Attachment 3 to MERC's July 31, 2015 filing shows MERC-NNG's forecasted design day. MERC has generally not contracted for demand to cover its projected non-heating season design day because, in the event of a non-heating season design day, MERC would be able to obtain additional capacity from NNG without issue. In comparison, if MERC were to contract for the additional demand, the additional cost to MERC-NNG ratepayers would be approximately $1.3 million. During non-heating season months, NNG has more than enough capacity available to sell to MERC as needed such that contracting for that demand would be an unnecessary cost to MERC-NNG customers.

Additionally, in its Comments, the Department raised concern with MERC's analysis for Ortonville because "the company used a regression model with a negative intercept term without providing a reasonable explanation for why it would be appropriate to do so." According to the Department, "Using a negative intercept term in a regression model, *ceteris paribus*, would tend to imply that MERC would not need any pipeline entitlements (capacity) for baseload usage; rather, its customers are supplying the baseload natural gas to MERC which seems implausible." MERC believes its use of a negative intercept term is reasonable under the circumstances. MERC understands the Department's comments regarding the use of a negative intercept term to be related to the forecasting process addressing load when the AHDD65 weather variable is zero, which commonly occurs in the months of July and August.

MERC follows several quality control steps to ensure that its regression models appear reasonable. In addition to thoroughly reviewing input data, various steps are taken to ensure that statistical components, such as R-squared and sigma, are acceptable.

The purpose of the design peak day forecast is to predict the load on a day similar to the coldest day in the last 20 years; therefore, the input data with the best predictive capabilities is selected. Data is restricted to the last three years to focus on recent demographics, and limited to the months of December, January, and February, since the coldest day has historically only occurred within one of those months. MERC's prior experience has shown that regressions with more and warmer weather data, which is further from the design peak day criteria, usually result in positive intercept terms but less statistically predictive results. As the coldest day in the last 20 years in Ortonville was January 14, 2009, detail for that specific day is outside the scope of the input data. In this situation, and for all the other MERC areas, the results of the regressions then need to be extrapolated upward to reach the design peak day criteria. This approach is commonly followed in the utility industry and has historically provided reliable statistical results.

While adding customer usage data from the warmest months would be likely to result in a positive intercept term, because the model seeks to predict customer usage during an extreme cold event, use of such data would make the regression sample data less representative of the true population containing the predicted event (customer usage on very cold days). If the sample is not representative of the population, meaningful statistical inference such as extrapolation of regression results is problematic. The same can be said for trying to forecast warm day events (such as warm day requirements for baseload supply) by looking at customer behavior and usage on very cold days.

MERC will submit an update to its Consolidated Demand Entitlement filing on or before November 2, 2015 and will provide a cost analysis of the alternatives to the Bison contract, as indicated in MERC's July 31, 2015 filing. Please contact me at (651) 322-8965 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely yours,

/s/ Amber S. Lee

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

cc: Service List

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 26th day of October, 2015, 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. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 26th day of October, 2015.

/s/ Kristin M. Stastny
Kristin M. Stastny

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