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March 6, 2009

**VIA ELECTRONIC FILING**

Burl W. Haar  
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-PNG for Approval of a Change in Demand Entitlement for its Viking Gas Transmission System  
Docket No. G011/M-08-1331

Dear Dr. Haar:

Enclosed please find the Reply Comments of Minnesota Energy Resources Corporation ("MERC") in the above-referenced docket.

Thank you for your attention to this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

**STATE OF MINNESOTA  
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

David C. Boyd  
J. Dennis O'Brien  
Thomas Pugh  
Phyllis A. Reha  
Betsy Wergin

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition of Minnesota  
Energy Resources Corporation-PNG for  
Approval of a Change in Demand Entitlement  
for its Viking Gas Transmission System

Docket No. G011/M-08-1331

**REPLY COMMENTS OF  
MINNESOTA ENERGY RESOURCE CORPORATION**

Minnesota Energy Resources Corporation-PNG (“MERC” or “Company”) submits to the Minnesota Public Utilities Commission (“Commission”) these Reply Comments in response to the February 9, 2009 Comments of the Minnesota Office of Energy Security (“OES”) in the above referenced matter.

Based on its investigation and review of MERC’s petition, the OES concluded that MERC has provided a reasonable basis for its proposal. The OES, however, requested that the Company provide additional information, as discussed below, to confirm that its service to its firm customers is reliable.

**A. Daily Weather Data Associated with All-Time Peak Day**

The OES noted that the Company did not provide the daily weather associated with its all-time Viking Peak day as it had agreed to do in its Reply Comments in Docket No. G011/G-07-1403 and requested that the Company provide the daily weather data associated with its all-time Viking Peak day in these Reply Comments.

**Response**

MERC utilizes the Fargo, North Dakota weather station for PNG-VGT forecasting purposes. The all-time peak adjusted HDD from 1970 through 2008 occurred on January 18, 1996, and MERC used the 109 adjusted HDD for the peak day capacity requirement. The following table contains the weather information for that day:

Weather Station	Max Temp	Min Temp	Avg. Temp	Unadj. HDD	Wind Speed	Adj. HDD
Fargo	-9	-23	-16	81	34	109

**B. Design-Day Requirement**

The OES concluded that MERC conducted its design-day study using a statistically valid model, but noted a significant decrease in MERC’s estimate of its design-day requirement due to a change in MERC’s methodology. The OES requested that MERC provide the following information to ensure that MERC’s design-day study provides reliable service to firm customers on peak days:

1. The OES invited the Company to identify separately, by service and interstate pipeline contract, the amount of CD units included in the proposed design day and peak-day entitlement levels along with the previous entitlement levels as shown in OES Attachments 1 and 2.
2. Given that the Viking system has no peak shaving ability or available storage, the OES requested that MERC provide information and detailed explanations on whether the Company had sufficient capacity available for firm customers during the recent cold spells experienced in January and February 2009.

3. To check more closely on the effects of MERC's change in methodology, the OES requested the Company to recalculate the design day requirements in Docket No. G011/M-07-1403 for the 2007-2008 season using the approach used by the Company in the current docket to see if the 2007-2008 design day requirements would have shown a decrease or an increase and to provide the results in these Reply Comments. The OES noted that this information would help confirm whether the Company's revised method still ensures that firm service is reliable.
4. The OES noted that although the all-time peak day sendout of 1.7404 Mcf/day occurred during the 2005-2006 heating season, the OES was unaware of any weather conditions during the 2005-2006 heating season that approached the Commission's peak-day classification of 24-hours of -25°F temperatures. The OES requested MERC to provide any pertinent information regarding factors other than weather that affect the level of demand by customers on MERC-PNG's Viking system.
5. The OES also requested that MERC reconcile a number in this filing with a number in the Company's rate case. Specifically, when the Company calculated the "Daily Firm Capacity (DFC) customer selections" in its calculations in this proceeding, the number of joint interruptible customers used in the data was for 59 customers. However, in MERC's general rate case the Direct Testimony and Exhibits of Company Witness, Gregory J. Walters, Exhibit GJW-1, Schedule 12 shows approximately 24 joint sales customers in the test year. The OES requested that MERC provide a detailed explanation and reconciliation for the 59 customers DFC data used in the calculation of the firm peak-day estimate calculations and

the 24 customers shown in the Company's rate case. If the Company's firm peak-day estimates and calculations change as a result of the reconciliation, the OES requested that the Company update and provide any and all such results in its Reply Comments.

**Response**

1. There are no CD units in the proposed design day or in the contracts listed on OES Attachment 1 and Attachment 2.
  
2. MERC experienced a sustained cold spell from January 12, 2009 through January 15, 2009, with adjusted HDD from 84 to 94 experienced. The table below shows the unadjusted/adjusted HDD, MERC contracted firm capacity, MERC nominations, third party nominations and total consumption for all MERC customers (sales and transportation) on VGT.

Date	Unadj. HDD	Adj. HDD	Contracted Firm Capacity	MERC Nominated Capacity	Third Party Nomination	Total Noms	Actual Usage
1/12/2009	75	84	21,493	15,342	4,384	19,726	20,963
1/13/2009	80	90	21,493	17,205	4,384	21,589	22,008
1/14/2009	86	92	21,493	21,361	4,679	26,040	23,613
1/15/2009	86	94	21,493	17,322	4,679	22,001	23,721

As the table indicates during the coldest winter experienced during 2009 MERC had adequate nominated capacity to meet total system requirements. MERC did not fully utilize all of its firm capacity on any of the days. In addition, MERC has to make sure the total system is balanced on a daily basis, which is why MERC

has to factor in third party nominations and compare to total system usage, not just firm usage.

3. MERC completed design day analysis for the winter of 2007/2008 utilizing the new design day methodology. The data utilized to subtract out the interruptible and transportation for 2007/2008 was not available in the same form as it was in 2008/2009, so MERC was not able to simulate exactly as it did in the 2008/2009 design day. The resulting design day requirement was 7,473 Dth. MERC design day requirement for the 2008/2009 winter was 7,420 Dth. Even though the results were close to each other, MERC believes the important point to focus on that supports the new methodology is the results when regressing total volumes. The total regressed volumes results in a point estimate of 9,877 for the recalculated 2007/2008 winter compared to 10,038 for the 2008/2009 winter. Please see “MERC 2007&08 Peak Day Forecast Recalculation Using 2008&09 Methodology” and “PNG-VGT Winter 2007&08 Peak Day Re-Run” attachments.
4. MERC’s did not acquire the Minnesota natural gas operations of Aquila until July 1, 2006. MERC therefore is not able to specifically address why the all-time peak day sendout of 1.7404 Mcf/day occurred during the 2005-2006 heating season. Aquila calculated that number and MERC does not have the information available or understand the methodology that was employed. MERC believes the biggest factor on the majority of MERC’s firm customer load is due to weather.

Other factors that will impact customer consumption patterns are based on economic and conservation reasons.

5. First, MERC believes that the OES incorrectly interpreted Exhibit GJW-1, Schedule 12 in the Direct Testimony and Exhibits of Gregory J. Walters in MERC's rate case. That schedule shows that there were 23 small volume interruptible (SVI-4) customers and 1 large volume interruptible (LVI-5) customer taking service from MERC-PNG off of the Viking pipeline. These customers are not joint customers. Schedule 12 shows that there were 5 small volume joint (SJ-4) customers in addition to transportation customers that were not distinguished by pipeline at the time of MERC's rate case filing. MERC-PNG currently has 7 joint rate customers taking service off of the Viking pipeline: 3 are small volume joint (SJ-4) customers, and 4 are small volume joint (SJ-4) transport customers. Note that the number of sales versus transport customers is not static, as customers may move from sales to transportation service and vice versa.

Additionally, MERC notes that it used the 7 joint customers indicated above to calculate the Daily Firm Capacity (DFC) customer selections for PNG-VGT, not the 59 customers referenced by the OES. The 59 customers include all joint customers on MERC's system, including both MERC-PNG and MERC-NMU.

### **C. Reserve Margin**

The OES noted that since the Viking system has no available storage or peak shaving ability, it may be appropriate for MERC to maintain greater reserve margins in the event of a peak-day event. The OES stated it would review the Company's Reply Comments for further information and suggested that at a minimum the issue of reliability be monitored going forward.

#### **Response**

Although MERC believes that its reserve margin is appropriate, it agrees to monitor this issue going forward and would value the opportunity to meet with OES to discuss the peak day methodology.

### **D. Design-Day Deliverability Changes**

The OES indicated that MERC's proposal would decrease the Company's pending total design-day capacity (total entitlement) by 915 Mcf/day. The decrease is itemized as follows:

- a decrease of 144 Mcf/day in FT-A 12 months (Viking);
- an increase of 361 Mcf/day in TF12 months (NNG); and
- a decrease of 411 Mcf/day in TF5 months (NNG).

The OES requested that the Company provide the reasons and detailed explanations for these changes in entitlement levels in its Reply Comments.

#### **Response**

MERC agrees there was a 915 Mcf/day decrease in firm entitlement, however, there was no decrease in Viking FT-A 12 month capacity. MERC decreased the total NNG TF12 capacity by 505 Mcf/day and decreased NNG TF5 capacity by 411 Mcf/day. MERC allocated VGT Contract AF0014 that has capacity of 1,098 Mcf/day with a Chisago receipt to PNG-VGT and



VGT Contract RF0361 that has capacity of 5,902 Mcf/day with a Chisago receipt was allocated to NMU. The NNG TF12 and NNG TF5, which total 7,000 Mcf/day capacity with a delivery point of Chisago, were allocated between PNG-VGT and NMU based upon a prorated percentage of capacity that could be sourced at the VGT and NNG interconnect at Chisago. The following table shows the allocation methodology.

NNG Contract Number	5 Month NNG	12 Months NNG	Total	PNG-VGT Contract AF0014	NMU Contract RF0361	PNG-VGT Allocated 5 Month	NMU Allocated 5 Month	PNG-VGT Allocated 12 Month	NMU Allocated 12 Month
112495	668	2,756	3,424	1,098	5,902	105	563	432	2,324
112486	2,478	1,098	3,576	1,098	5,902	389	2,089	172	926
Total	3,146	3,854	7,000			494	2,652	604	3,250

MERC decreased the capacity on PNG-VGT and moved the capacity to NMU due to NMU having the need for the capacity. MERC still maintains a 2.76% reserve margin for PNG-VGT.

**E. Future PGA and Demand Entitlement Filings**

The OES noted that MERC has been using the 2000 rate case volumes in its monthly PGA reports from at least September 2008 and prior periods. The OES stated that it expects MERC, after the end of the Company’s general rate case in Docket No. G007,011/GR-08-835, to comply with Minnesota Rule 7825.2700, subpart 5, and Minnesota Rule 7825.2400, subpart 3 in the Company’s future PGA and demand entitlement filings. In particular, the Company would use the Commission-approved test year demand volumes for three years after the end of its general rate case test year (2008), and annual demand as defined in Minnesota Rule 7825.2400, subpart 3, in the Company’s future PGA and demand entitlement filings.

**Response**

MERC agrees to compute the demand adjustment using test year demand volumes for three years after the end of the Company's general rate case test year (i.e., for 2009 through 2011). After that time, MERC agrees to compute the demand adjustment on the basis of the annual demand volume as defined in Minnesota Rule 7825.2400, subpart 3, in its future PGA and demand entitlement filings.

DATED this 6th day of March, 2009.

Respectfully submitted,

DORSEY & WHITNEY LLP

/s/ Michael J. Ahern

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Attorney for MERC

MERC Peak Day Forecast - 2008 (in Decatherms) - Recalc using 2009 Methodology

Demand Area	Regression Analyses (1)			2008 Adjustments				2008 Revised Final Result	2008 Demand Entitlement Filing				2008 Differences between Methodologies		2009 Demand Entitlement	Change from Recalculated 2008 to 2009	2009 Filing Change from Prior Year
	B	C	D=B+(A*C)	E	F	G=D-E+F	H	I=G*(1+H)	J	K			I-J		L	L-I	L - J
Service Area/ Pipeline	Baseload	Use/ AHDD	Point Est	(Remove) Interruptible, Transportation & Joint Interruptible	(Add Back) Daily Firm Capacity - Jan 2007	Sub-Total 2008 Peak Day Estimate	Sales Forecast Growth Rate (2)	2008 Total Peak Day Estimate	2007 Forecast for 2008 Peak Day	Re-Allocated 02/25/09 (for Analysis Only)	2008 Entitlement	2008 Reserve Margin	2008 Peak Day Original vs Revised Estimate	2008 Forecast for 2009 Peak Day	2009 Peak Day Estimate vs 2008 Revised Peak Day Estimate	2009 Peak Day Estimate vs 2008 Peak Day Estimate	
1 NMU-Centra	1,116	95.6	11,347	2,752	-	8,596	0.6%	8,647	9,690	9,690			(1,043) -10.8%	7,611	(1,036) -12.0%	(2,079) -21.5%	
2 NMU-GLGT	560	246.3	26,682	2,474	-	24,208	0.7%	24,377	17,497	15,829			8,548 54.0%	22,628	(1,749) -7.2%	6,799 43.0%	
3 NMU-NNG	2,818	247.8	28,340	5,278	1,026	24,088	0.5%	24,208	21,491	21,491			2,717 12.6%	21,790	(2,418) -10.0%	299 1.4%	
4 NMU-VGT	2,905	86.5	12,338	5,960	590	6,968	0.5%	7,003	12,331	8,345			(1,342) -16.1%	6,994	(9) -0.1%	(1,351) -16.2%	
5 NMU-GLGT&VGT(4)	422	52.7	6,056	1,339	56	4,772	0.5%	4,796	NA	5,654			(858) -15.2%	4,701	(95) -2.0%	(953) -16.9%	
<b>NMU Total</b>	<b>7,820</b>	<b>728.9</b>	<b>84,763</b>	<b>17,803</b>	<b>1,672</b>	<b>68,632</b>	<b>0.6%</b>	<b>69,032</b>	<b>61,009</b>	<b>61,009</b>	<b>64,420</b>	<b>5.59%</b>	<b>8,023</b> <b>13.2%</b>	<b>63,724</b>	<b>(5,308)</b> <b>-7.7%</b>	<b>2,715</b> <b>4.5%</b>	
6 PNG-GLGT	921	99.1	11,529	2,890	314	8,953	1.2%	9,060	9,550		10,000	4.71%	(490) -5.1%	10,300	1,240 13.7%	750 7.9%	
7 PNG-NNG	31,152	2,206.0	251,200	34,834	46,725	263,091	0.8%	265,196	202,263		226,785	12.1%	62,933 31.1%	225,397	(39,799) -15.0%	23,134 11.4%	
8 PNG-VGT	854	82.8	9,877	3,309	802	7,370	1.4%	7,473	8,135		8,540	4.98%	(662) -8.1%	7,420	(53) -0.7%	(715) -8.8%	
<b>PNG Total</b>	<b>32,927</b>	<b>2,387.9</b>	<b>272,605</b>	<b>41,033</b>	<b>47,841</b>	<b>279,414</b>		<b>281,729</b>	<b>219,948</b>		<b>245,325</b>	<b>11.54%</b>	<b>61,781</b> <b>28.1%</b>	<b>243,117</b>	<b>(38,612)</b> <b>-13.7%</b>	<b>23,169</b> <b>10.5%</b>	
<b>MERC Total</b>	<b>40,748</b>	<b>3,116.9</b>	<b>357,368</b>	<b>58,835</b>	<b>49,513</b>	<b>348,046</b>		<b>350,761</b>	<b>280,957</b>		<b>309,745</b>	<b>10.2%</b>	<b>69,804</b> <b>24.8%</b>	<b>306,841</b>	<b>(43,920)</b> <b>-12.5%</b>	<b>25,884</b> <b>9.2%</b>	

(4) NMU - GLGT&VGT is approximately 33% GLGT and 66% VGT

(1) Paper mills, taconites, direct-connects and off-system end users with daily meters removed before regression.

(2) General Service Customers (2008 - 2009) from FCST200806

**PNG-VGT Peak Day Regression for Winter 2008 Re-Run - Summary**  
**Based on December through February Data for 3 to 4 years**

**109** Coldest Fargo Adjusted HDD in 20 years (January 18, 1996)  
**2.5%** Risk Tolerance for Actual Load Exceeding Estimate

<u>Regression</u>	<u>Baseload</u>	<u>Use/AHDD</u>	<u>Adj R Sq.</u>	<u>Sigma</u>	<u>Point Est</u>	<u>Total Throughput Risk Adjustment</u>	<u>Total Throughput Peak Day Estimate</u>
4yr	929.74	81.90	0.894	438.61	9,857	860	10,716
4yr-S	930.28	81.90	0.894	437.99	9,857	858	10,716
4yr-AHDD	623.69	83.58	0.873	480.40	9,734	942	10,675
3yr	811.16	82.51	0.891	436.87	9,805	856	10,661
<b>3yr-S</b>	<b>853.95</b>	<b>82.78</b>	<b>0.890</b>	<b>438.91</b>	<b>9,877</b>	<b>860</b>	<b>10,737</b>
3yr-AHDD	571.91	84.12	0.869	478.08	9,741	937	10,678
				Min	9,734		10,661
				Max	9,877		10,737
				Avg	9,812		10,697

Results of 2009 Peak Day

4yr	748.34	84.58	0.892	442.96	9,968	868	10,836
4yr-S	773.55	84.68	0.892	443.14	10,004	869	10,872
4yr-AHDD	483.50	86.30	0.874	478.56	9,890	938	10,828
3yr	636.83	85.98	0.896	442.41	10,009	867	10,876
<b>3yr-S</b>	<b>622.94</b>	<b>86.38</b>	<b>0.896</b>	<b>443.26</b>	<b>10,038</b>	<b>869</b>	<b>10,907</b>
3yr-AHDD	313.26	88.66	0.878	479.68	9,978	940	10,918
				Min	9,843		10,784
				Max	10,038		10,918
				Avg	9,960		10,851

Changes: 2009 - 2008							
4yr	(181.40)	2.68	(0.001)	4.35	111	9	120
4yr-S	(156.73)	2.78	(0.002)	5.15	146	10	156
4yr-AHDD	(140.19)	2.72	0.002	(1.84)	156	(4)	152
3yr	(174.33)	3.47	0.006	5.54	204	11	215
<b>3yr-S</b>	<b>(231.01)</b>	<b>3.60</b>	<b>0.006</b>	<b>4.35</b>	<b>161</b>	<b>9</b>	<b>170</b>
3yr-AHDD	(258.64)	4.54	0.009	1.60	236	3	239
				Min	111		120
				Max	236		239
				Avg	169		175

**AFFIDAVIT OF SERVICE**

STATE OF MINNESOTA            )  
  ) ss.  
COUNTY OF HENNEPIN        )

Sarah J. Kerbeshian, being first duly sworn on oath, deposes and states that on the 6th day of March 2009, the attached Reply Comments of Minnesota Energy Resources Corporation were electronically filed with the Minnesota Public Utilities Commission and the Minnesota Department of Commerce. A copy of the filing was provided via United States first class mail to the remaining individuals on the attached service list.

/s/ Sarah J. Kerbeshian

Subscribed and sworn to before me  
this 6th day of March, 2009.

/s/ Paula R. Bjorkman  
Notary Public, State of Minnesota

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