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June 22, 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) 2011 Annual Service
Quality Report (Report)
Docket No. G007, 011/M-12-436
Reply Comments

Dear Dr. Haar:

On June 15, 2012, the Department of Commerce, Division of Energy Resources filed Comments recommending that the Minnesota Public Utilities Commission (Commission) accept MERC's Report pending the provision of additional information in MERC's Reply Comments. The specific information the Department requested is provided in detail in the following pages.

Thank you for your attention to this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Review of
Minnesota Energy Resources
Corporation's (MERC's) 2011
Annual Service Quality Report

Docket No. G007,011/M-12-436

REPLY COMMENTS OF MINNESOTA ENERGY RESOURCES CORPORATION

Minnesota Energy Resources Corporation (MERC) submits the attached Reply Comments in response to the June 15, 2012, Minnesota Department of Commerce, Division of Energy Resources (Department) Comments in this docket. In its Comments, the Department recommended that MERC provide additional information in its Reply Comments, specifically:

- A. a full explanation detailing whether the level of past due accounts in 2011 is typical and, if it is not, what steps the Company has taken or is taking to minimize past due accounts;
- B. a full explanation detailing why the average service installation time increased between 2010 and 2011 and why July's average response time was significantly longer than other months in 2011;
- C. a full explanation of why meter adjustment and service quality complaints increased between 2010 and 2011. Specifically, MERC should address whether the increase in complaints, in particular service quality, is the result of changes in how the Company classifies complaints or operational issues;
- D. a detailed explanation of how the Company defines system integrity and the circumstances surrounding each of the service outages due to system integrity related events in 2011;

- E. a detailed explanation of each unusual service interruption event, as defined in the Department's Comments, including what caused the service interruption and why the event impacted several customers or lasted for an extended period of time;
- F. a full discussion explaining whether the increase in O&M expenses between 2010 and 2011 are reasonable and indicative of normal growth over time; and
- G. a full explanation of why O&M costs in August and December 2011 were noticeably different than the monthly average.

Below, MERC discusses the additional information requested by the Department.

A. Whether the Level of Past Due Accounts in 2011 is Typical and What Steps the Company Is Taking to Minimize Past Due Accounts

MERC believes the number of customers with past due accounts is typical. The write-off dollars have continued to decrease in most part because of lower gas costs. MERC has disconnected fewer numbers because of non-payment. Because of fewer disconnects and write-offs, MERC continues to lower its past due accounts and bad debt.

B. Why the Average Service Installation Time Increased Between 2010 and 2011 and Why July's Average Response Time Was Significantly Longer than Other Months in 2011

MERC uses a manual process for tracking service installation time so the process is subject to human error. MERC inputs the date service is requested when the builder or owner applies for new service. MERC then needs to continually check these addresses to verify when service is actually ready. If field personnel do not communicate this information to the office, or the office neglects to update the service request, the information can inaccurately depict the actual installation time. MERC continues to work with all personnel on this reporting requirement, but the reporting process is the one most subject to error. Installations are also tracked by complaints, but MERC is unaware of any complaints to the Commission or MERC regarding service installations.

C. Why Meter Adjustment and Service Quality Complaints Increased Between 2010 and 2011 and Whether the Increase in Complaints Is the Result of Changes in the Company's Classification of Operational Issues

MERC spent considerable time working with the call center representatives in 2010 to help them identify and properly categorize complaints. MERC is confident that the training has resulted in a more accurate accounting of complaints.

D. Explanation of the Company's Definition of "System Integrity" and the Circumstances Surrounding Each of the Service Outages Due to System Integrity Related to Events in 2011

MERC reports system integrity issues caused by system failures such as inadequate pressure, or component failures such as regulator or pipeline failures. MERC reviewed the three outages attributed to system integrity and determined that they were incorrectly reported. All three outages resulted from actions by MERC employees or its contractors.

E. Explanation of Unusual Service Interruption Events, Including What Caused the Service Interruption and Why the Event Impacted Several Customers or Lasted an Extended Period of Time

The incident that occurred on April 13, 2011, involved a main hit by a contractor installing pole anchors. A two-inch steel main adjacent to an intersection of two four-lane streets was severed. The damaged main line is fed from three different directions. To safely stop the flow of gas so repairs could be made, the concrete roads needed to be excavated. The mains that needed to be stopped were all under concrete and the excavation took longer than normal because of safety concerns. This main is located in a commercial area and all customers affected were commercial customers.

The second incident occurred at a small airport consisting of an office and privately-owned hangars. Digging was initiated without a line locate and the main serving the airport was severed. None of the hangars had water and there was no risk of damage from freezing. MERC tagged all the hangars and advised the owners to contact MERC for relight. Airport management also contacted owners. MERC also sent letters to the owners who had not

responded after several days and advised them the gas was off and they should contact MERC for a relight.

F. Whether the Increase in O&M Expenses between 2010 and 2011 Are Reasonable and Indicative of Normal Growth over Time

MERC believes the increases in O&M expenses between 2010 and 2011 are normal.

The greatest increase of \$250,000 was in FERC account 903, which shows the costs related to its third-party billing and call center vendor Vertex. Those costs increase annually.

G. Explanation Why O&M Costs in August and December 2011 Were Noticeably Different Than the Monthly Average

MERC's O&M costs in August were less because labor costs were lower – more labor was charged to capital projects that month. MERC had several projects related to compliance corrections that required employee involvement in August, which resulted in lower labor costs to O&M. December O&M costs were higher due to invoice accruals and an adjustment for the non-executive incentive.

DATED this 22nd day of June, 2012.

Respectfully submitted,
DORSEY & WHITNEY LLP

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Attorney for Minnesota Energy
Resources Corporation

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Amber S. Lee hereby certifies that on the 22nd day of June, 2012, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the 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/ Amber S. Lee
Amber S. Lee

Subscribed and sworn to before me
this 22nd day of June, 2012.

/s/ Paula Bjorkman
Notary Public, State of Minnesota

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