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April 24, 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 Petitions of Minnesota Energy Resources Corporation for Approval of a Tariff Revision and Additional New Area Surcharge Customer Classes for the Ely Lake Project (Docket No. G011/M-17-211), Detroit Lakes-Long Lake Project (Docket No. G011/M-17-210), and Fayal Township Long Lake Project (Docket No. G011/M-17-212).

Reply Comments of Minnesota Energy Resources Corporation

Dear Mr. Wolf:

On March 15, 2017, Minnesota Energy Resources Corporation (“MERC” or the “Company”) filed with the Minnesota Public Utilities Commission (“Commission”) a petition for approval to add additional customer classes to the Detroit Lakes-Long Lake New Area Surcharge (“NAS”) project in Docket Nos. G011/M-15-441 and G011/M-17-210; a petition for approval to add additional customer classes to the Ely Lake NAS project in Docket Nos. G011/M-15-776 and G011/M-17-211; and a petition for approval to add additional customer classes to the Fayal Township Long Lake NAS project in Docket Nos. G011/M-16-221 and G011/M-17-212.

On April 14, 2017, the Minnesota Department of Commerce, Division of Energy Resources (“Department”) filed Comments addressing MERC’s petitions and recommending approval of MERC’s proposed tariff revisions to establish NAS charges for the Large Commercial/Industrial (“C&I”) customer class for the Ely Lake and Detroit Lakes-Long Lake projects, and denial of MERC’s request to establish an NAS for any other additional customer classes. MERC thanks the Department for its thorough review and consideration of the Company’s petitions and submits these Reply Comments to respond to the Department’s recommendations.

In its Comments, the Department noted that “[t]he method of calculating the NAS for more than one customer class has evolved as more projects have been proposed

and approved.” Based on its analysis, the Department concluded that basing new NAS factors on the currently-approved Residential NAS in proportion to the customer class’ varying customer charges is reasonable. Based on its review of prior Commission Orders, however, the Department also recommended that the Commission deny MERC’s request to establish NAS factors for the Large Volume Interruptible (“LVI”) and Small Volume Interruptible (“SVI”) customer classes for the Ely Lake and Detroit Lakes projects, and deny MERC’s request to establish NAS factors for the Large C&I, SVI, and LVI customer classes for the Fayal Township project because the Department concludes establishing NAS factors for those “customer classes would only be justified if a customer within those classes request service in those areas.”

MERC agrees with the Department’s summary of prior Commission orders on approval of new area surcharges and acknowledges that in prior NAS proceedings, the Commission has only approved NAS factors for those customer classes for which MERC projects customers. Nevertheless, MERC continues to recommend approval of NAS charges for all customer classes for three primary reasons.

First, under the customer charge allocation method of calculating new NAS factors, which the Department agrees is reasonable, the addition of a new customer will not affect the calculation of appropriate surcharges. The Commission’s prior decisions declining to approve NAS factors for customer classes without any anticipated customers were based on a different calculation methodology, under which the number of assumed customers within each class would directly affect the NAS charges.

Second, approval of all customer classes as requested is consistent with the Commission’s most recent decisions on MERC’s Esko and Balaton NAS projects, where the Commission established NAS charges for all of the requested classes, despite the fact that MERC was not projecting any customers taking service within the LVI class. In those proceedings, MERC utilized the same customer charge allocation methodology proposed here to calculate the surcharges for non-Residential NAS factors. As MERC explained in those proceedings, economic conditions could drive a customer to switch from firm C&I service to interruptible and/or from SVI to LVI service. As a result, it is important that MERC have approved NAS factors for all classes so that customers can make educated decisions about whether to connect based on their current and anticipated future circumstances.

Finally, approval of NAS factors for all customer classes, as proposed, will allow for consistency among NAS projects and will ensure efficiency in the administration of these projects, which require significant resources to market, bill, and track.

Consistency in the calculation methodology and approval of all NAS factors will also ensure predictability for customers. There will likely be circumstances where existing customers in NAS project areas move classes because of changes in usage or because of expansion of existing business operations. Customers need to be able to predict their natural gas rates in advance of connecting to natural gas service to make informed decisions about the cost of their natural gas service. Approval for all customer classes before commencement of a project is essential due to frequently changed circumstances and the fact that new customer participation benefits all participants in an NAS project.

MERC agrees with the Department that “depending on degree and timing, should a significant and unanticipated number of customers, or size of customer, request service, it is appropriate for the Commission to consider adjusting the NAS factors, or shortening the NAS period, or both.” The Commission has authority to adjust NAS factors if it concludes such adjustments are appropriate and has the opportunity to review and evaluate any unanticipated changes based on MERC’s annual NAS compliance filings. Approval of NAS factors for all customer charges does not undermine the Commission’s ability to review or revisit the reasonableness of those NAS factors in the future. Now that policy and precedent have been developed with respect to the regulatory approach to NAS projects and the associated accounting, MERC believes establishing surcharges for all customer classes, regardless of whether service has yet been requested for those classes, is reasonable and appropriate.

MERC appreciates the opportunity to submit these Reply Comments and continues to respectfully request approval to add additional customer classes to the Ely Lake, Detroit Lakes-Long Lake, and Fayal Township Long Lake NAS projects. 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

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval to Add Additional Customer Classes to the Detroit Lakes-Long Lake Project

Docket No G011/M-17-210

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval to Add Additional Customer Classes to the Ely Lake Project

Docket No G011/M-17-211

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval to Add Additional Customer Classes to the Fayal New Area Surcharge Project

Docket No G011/M-17-212

### CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 24th of April, 2017, 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](http://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 24th day of April, 2017.

/s/ Kristin M. Stastny  
Kristin M. Stastny

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