

January 8, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department)
Docket No. G011/M-13-669

Dear Dr. Haar:

On August 1, 2013, Minnesota Energy Resources Corporation (MERC or the Company) filed a change in demand entitlement petition (petition) for its customers served off of the Consolidated system but agreed to provide updated information on November 1, 2013. On October 3, 2013, the Department filed its Comments recommending that the Commission:

- allow MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion;
- accept MERC-Consolidated's peak-day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as further discussed in the body of the Department's Comments;
- accept MERC-Consolidated's proposed level of demand entitlement; and
- allow the proposed recovery of associated demand costs effective November 1, 2013.

On November 1, 2013, MERC filed updated information. MERC purchased 1,500 Dth of firm capacity from December 2013 through February 2014 from Viking Pipeline rather than the anticipated Wadena Delivered Call Option of 1,500 Dth. MERC stated that there was a lack of interest by suppliers in selling the call option. The decision to purchase firm capacity rather than the call option does not result in a change in the level of overall Viking capacity that was originally proposed in the Company's August 1, 2013 petition.

The Department's revised Attachments 1-3 are attached. In its Attachment 3, the Department compares MERC-NNG's October 2013 PGA to a projected November 2013 PGA as a means of highlighting the Company's changes in demand costs.¹ The Company's revised demand entitlement proposal would result in the following annual demand cost impacts:

¹ MERC also provides this comparison in its Attachment 4, page 1.

- Annual bill decrease of \$0.0208 related to demand costs, or approximately 2.27 percent, for the average General Service customer consuming 90 Dkt annually;
- Annual bill decrease of \$0.0208 related to demand costs, or approximately 2.27 percent, for the average Large General Service customer consuming 4,932 Dkt annually;
- No demand cost impacts related to MERC-Consolidated's interruptible rate classes.

The Department continues to make the same recommendations as in its October 3, 2013 Comments stated above and is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt
Enclosure

Department Revised Attachment 1
Docket No. G011/M-13-669
MERC-Consolidated's Demand Entitlement Historical and Current Proposal

Source: MERC's Attachment 6	1-Aug 2013	1-Aug 2013	1-Aug 2013	1-Nov 2013	1-Nov 2013
2012-2013 Heating Season	Quantity (Mcf)	Quantity (Mcf)	Change in Quantity	Quantity (Mcf)	Change in Quantity
FT Western Zone annual	10,130	10,130	0	10,130	0
FT Western Zone (12) annual	3,600	3,600	0	3,600	0
FT Western Zone (5) winter	3,638	3,638	0	3,638	0
FT Western Zone annual	9,000	9,000	0	9,000	0
FT-A Zone 1 - 1 annual	12,493	12,493	0	12,493	0
FT-A Zone 1 - 1 winter	1,098	1,098	0	1,098	0
FT-A Zone 1 - 1 annual	2,000	2,000	0	2,000	0
FA-A Zone 1 - 1 annual	0	0	0	1,500	1,500
Wadena Delivered GDD Call Option	3,500	1,500	(2,000)	0	(3,500)
Centra FT - 1 annual	9,500	9,500	0	9,500	0
Total Design Day Capacity	54,959	52,959	(2,000)	52,959	(2,000)
Total Transportation	54,959	52,959	(2,000)	52,959	(2,000)
Total Annual Transportation	46,723	46,723	0	46,723	0
Total Seasonal Transport	4,736	4,736	0	4,736	0
Percent Seasonal	8.6%	8.9%	0	8.9%	0

MERC-Consolidated
Reconciliation of Current Entitlements
G011/M-13-669

Source	Doc. 12-1194	Current	Doc. 13-669, MERC's Atth. 3, p.1	Current	Add
Items	MERC-PNG Viking	Entitlements	Entitlements per MERC's Atth. 3, p. 1	Entitlements	Items
1	FT-A 12 months	5,488	FT Western Zone (GL) FT0016	10,130	4+11
2	FT-A 3 months	416	FT Western Zone (12) FT0155 (12)	3,600	5+12
3	Wadena Option	1,325	FT Western Zone (5) FT0155 (5)	3,638	6+13
	Total PNG Viking	7,229	FT Western Zone FT 15782	9,000	7+14
			FT-A Zone 1-1 AF0012	12,493	1+7-757 *
			FT-A Zone 1-1 AF0014 (3)	1,098	2+9
			FT-A Zone 1-1 AF0102	2,000	10+757 *
			Wadena Option	3,500	3+16
			Centra FT-1	9,500	15
			Total Entitlements	<u>54,959</u>	
* 757 units subtracted or added to reconcile with MERC's figures.					
Source	Doc. 12-1192				
	<u>MERC-PNG GL</u>				
4	T-17	3,923			
5	FT-155 (12)	1,394			
6	FT-155 (5)	1,409			
7	FT 15782	3,486			
	Total PNG GL	10,212			
Source	Doc. 12-1195				
	<u>MERC-NMU</u>				
	<u>VIK</u>				
8	FT-A (AF0012)	7,762			
9	FT-A (AF0014)	682			
10	FT-A (AF0102)	1,243			
	total Vik	9,687			
	<u>GL</u>				
11	T-16	6,207			
12	T-155 - 12	2,206			
13	T-16 & T-155 - 5	2,229			
14	TF15782 - 12	5,514			
	Total GL	9,949			
	<u>Centra</u>				
15	FT-1	9,500			
16	Wadena Option	2,175			
	Total NMU	37,518			
	Total Entitlements	<u>54,959</u>			

No revisions made to this schedule.

Department Attachment 2
Docket No. G011/M-13-669
Demand Entitlement Analysis

MERC-Consolidated Demand Entitlement Analysis

		Number of Firm Customers			Design-Day Requirement			Total Entitlement Plus Peak Shaving			Reserve Margin	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Heating Season*	Number of Customers	Change from Previous Year	% Change From Previous Year	Design Day (Dth)	Change from Previous Year	% Change From Previous Year	Total Design-Day Capacity (Dth)	Change from Previous Year	% Change From Previous Year	Reserve (7) - (4)	% of Reserve [(7)-(4)]/(4)	
2013-2014	34,007	0	0.00%	50,048	(2,241)	-4.29%	52,959	(2,000)	-3.64%	2,911	5.82%	
2012-2013*	34,007			52,289			54,959					

Average: 0.00%

* 2012-2013 figures are from MERC-Consolidated Attachment 3, page 1 of 1.

-3.64%

5.82%

Firm Peak-Day Sendout

	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Heating Season*	Firm Peak-Day Sendout (Dth)	Change from Previous Year	% Change From Previous Year	Excess per Customer [(7)-(4)]/(1)	Design Day per Customer (4)/(1)	Entitlement per Customer (7)/(1)	Peak-Day Send per Customer (12)/(1)
2013-2014	unknown			0.0856	1.4717	1.5573	unknown

Average #DIV/0! 0.0856 1.4717 1.5573 #DIV/0!

No revisions made to this schedule,

DOC Attachment 3
MERC -Consolidated
Rate Impacts
G011/M-13-669

	Base Cost of Gas Change MR10-978	Demand Change Nov. 2013	Last Demand Change Jan. 13	Most Recent PGA Oct. 2013	Revised Nov. 1, 2013 w/ Proposed Demand Changes	% Change From Last Rate Case	% Change From Last Demand Filing	% Change From Last PGA	\$ Change From Last PGA
General Service-Residential									
Commodity Cost	\$4.6555	\$3.3688	\$3.3921	\$3.8670	\$3.7744	-18.93%	11.27%	-2.39%	(\$0.0926)
Demand Cost	\$1.0639	\$1.3431	\$1.4012	\$0.9176	\$0.8968	-15.71%	-36.00%	-2.27%	(\$0.0208)
Margin	\$1.9754	\$2.4189	\$1.9754	\$1.9754	\$1.9754	0.00%	0.00%	0.00%	\$0.0000
Total Cost of Gas	\$7.6948	\$7.1308	\$6.7687	\$6.7600	\$6.6466	-13.62%	-1.80%	-1.68%	(\$0.1134)
Average Annual Use	90	90	90	90	90				
Average Annual Cost of Gas*	\$692.53	\$641.77	\$609.18	\$608.40	\$598.19	-13.62%	-1.80%	-1.68%	(\$10.21)

	Base Cost of Gas Change MR10-978	Demand Change Nov. 2013	Last Demand Change Jan. 13	Most Recent PGA Oct. 2013	Nov. 1, 2013 w/ Proposed Demand Changes	% Change From Last Rate Case ^{AA}	% Change From Last Demand Filing	% Change From Last PGA	\$ Change From Last PGA
Large General Service									
Commodity Cost	\$4.6555	\$3.3688	\$3.3921	\$3.8670	\$3.7744	-18.93%	11.27%	-2.39%	(\$0.0926)
Demand Cost	\$1.0639	\$1.3431	\$1.4012	\$0.9176	\$0.8968	-15.71%	-36.00%	-2.27%	(\$0.0208)
Margin	\$1.6868	\$2.1856	\$1.6868	\$1.6868	\$1.6868	0.00%	0.00%	0.00%	\$0.0000
Total Cost of Gas	\$7.4062	\$6.8975	\$6.4801	\$6.4714	\$6.3580	-14.15%	-1.88%	-1.75%	(\$0.1134)
Average Annual Use	4,932	4,932	4,932	4,932	4,932				
Average Annual Cost of Gas*	\$36,527.38	\$34,018.47	\$31,959.85	\$31,916.94	\$31,357.66	-14.15%	-1.88%	-1.75%	(\$559.29)

	Base Cost of Gas Change MR10-978	Demand Change Nov. 2013	Last Demand Change Jan. 13	Most Recent PGA Oct. 2013	Nov. 1, 2013 w/ Proposed Demand Changes	% Change From Last Rate Case ^{AA}	% Change From Last Demand Filing	% Change From Last PGA	\$ Change From Last PGA
SV Interruptible Service									
Commodity Cost	\$4.6555	\$3.3688	\$3.3921	\$3.8670	\$3.7744	-18.93%	11.27%	-2.39%	(\$0.0926)
Commodity Margin	\$1.0647	\$1.0628	\$1.0647	\$1.0647	\$1.0647	0.00%	0.00%	0.00%	\$0.0000
Total Cost of Gas	\$5.7202	\$4.4316	\$4.4568	\$4.9317	\$4.8391	-15.40%	8.58%	-1.88%	(\$0.0926)
Average Annual Use	6,068	6,068	6,068	6,068	6,068				
Average Annual Cost of Gas*	\$34,710.17	\$26,890.95	\$27,043.86	\$29,925.56	\$29,363.66	-15.40%	8.58%	-1.88%	(\$561.90)

	Base Cost of Gas Change MR10-978	Demand Change Nov. 2013	Last Demand Change Jan. 13	Most Recent PGA Oct. 2013	Nov. 1, 2013 w/ Proposed Demand Changes	% Change From Last Rate Case ^{AA}	% Change From Last Demand Filing	% Change From Last PGA	\$ Change From Last PGA
LV Interruptible Service									
Commodity Cost	\$4.6555	\$3.3688	\$3.3921	\$3.8670	\$3.7744	-18.93%	11.27%	-2.39%	(\$0.0926)
Commodity Margin	\$0.3568	\$0.3164	\$0.3568	\$0.3568	\$0.3568	0.00%	0.00%	0.00%	\$0.0000
Total Cost of Gas	\$5.0123	\$3.6852	\$3.7489	\$4.2238	\$4.1312	-17.58%	10.20%	-2.19%	(\$0.0926)
Average Annual Use	40,821	40,821	40,821	40,821	40,821				
Average Annual Cost of Gas*	\$204,607.10	\$150,433.55	\$153,033.85	\$172,419.74	\$168,639.72	-17.58%	10.20%	-2.19%	(\$3,780.02)

	Commodity Change \$/Mcf	Commodity Change %	Demand Change \$/Mcf	Demand Change %	Total Change \$/Mcf	Total Change %	Average Annual Change
Change Summary							
General Service	(\$0.0926)	-9.26%	(\$0.0208)	-2.27%	(\$0.1134)	-1.68%	(\$10.21)
Large General Service	(\$0.0926)	-9.26%	(\$0.0208)	-2.27%	(\$0.1134)	-1.75%	(\$559.29)
SV Interruptible Service	(\$0.0926)	-9.26%	\$0.0000	0.00%	(\$0.0926)	-1.88%	(\$561.90)
LV Interruptible Service	(\$0.0926)	-9.26%	\$0.0000	0.00%	(\$0.0926)	-2.19%	(\$3,780.02)

* Average Annual Bill amount does not include customer charges.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. G011/M-13-669

Dated this **8th** day of **January 2014**

/s/Sharon Ferguson

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