

September 2, 2025

Mike Bull
Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Comments of the Minnesota Department of Commerce
Docket No. G011/M-25-68

Dear Mr. Bull:

Attached are the initial comments of the Minnesota Department of Commerce (Department) in the following matter:

*In the Matter of Minnesota Energy Resources Corp.'s Petition for Approval
of a Change in Demand Entitlement for its NNG System*

The Petition was filed by the Minnesota Energy Resources Corporation on August 1, 2025.

The Department will provide its final recommendations to the Minnesota Public Utilities Commission (Commission) after the Company files its Reply Comments and its November 3, 2025 Update. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ Dr. Sydnie Lieb
Assistant Commissioner of Regulatory Analysis

SS/ad
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce

Docket No. G011/M-25-68

I. INTRODUCTION

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its initial comments on the Demand Entitlement Filing (Petition) of Minnesota Energy Resources Corporation (MERC or the Company) for its Northern System in Docket No. G011/M-25-68.¹ Pursuant to Minnesota Rules part 7825.2910, subpart 2, MERC filed a petition to request changes in the levels of demand for natural gas pipeline capacity on August 1, 2025, with the Minnesota Public Utilities Commission (Commission or PUC), to change the levels of demand for natural gas pipeline capacity (Petition) for customers served off the Northern Natural Gas (NNG or Northern) System. The Petition is the ninth in which the Company's NNG and Albert Lea systems were combined based on the ruling in Docket No. G011/GR-15-736.² MERC requested that the Commission approve changes in the Company's recovery of the overall level of contracted capacity.³

II. PROCEDURAL BACKGROUND

The Department outlines the relevant procedural history as follows.

| | |
|------------------|---|
| February 4, 2015 | The Commission issued its Order in Docket Nos. G011/M-12-1192, G011/M-12-1193, G011/M-12-1194, G011/M-12-1195, the Commission stated in part the following: "Required MERC to check its regression models for autocorrelation and correct the model if autocorrelation is present by removing the autocorrelation from the model." ⁴ |
| April 28, 2016 | The Commission issued its Order in Docket Nos. G011/M-15-722, G011/M-15-723, G011/M-15-724, the Commission stated in part the |

¹ Minnesota Energy Resources Corporation, Petition, August 1, 2025, (eDockets) [20258-221697-02](#), (hereinafter "Petition").

² *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service of Changes in Minnesota*, Minnesota Public Utilities Commission, Findings of Fact, Conclusions, and Order, October 31, 2016, Docket Nos. G 011/GR-15-736, (eDockets) [201610-126124-01](#) at 56-57, (hereinafter "2015 MERC Rate Case Order").

³ MERC noted in its Petition's cover letter that any updated information would be provided with the Company's November 2025, filing.

⁴ *In the Matter of a Petition by Minnesota Energy Resources Corporation (MERC-PNG Great Lakes Gas Transmission (GLGT), MERC – PNG Northern Natural Gas (NNG), MERC-PNG Viking, and MERC-NMU) for Approval of Changes in Contract Demand Entitlements for the 2012-2013 Heating Season Supply Plan effective November 1, 2012*, Order, February 4, 2015, Docket Nos. G 011/M-12-1192; G-011/M-12-1193; G-011/M-12-1194; G-011/M-12-1195, (eDockets) [20152-107016-04](#) at 2, (hereinafter "February 4, 2015 Order").

following: “Required MERC to verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain.”⁵

May 8, 2018 The Commission issued its Order in Docket No. G011/M-15-895, which:

1. Required MERC to provide semiannual updates in this docket explaining what, if any, capacity-release-related activity occurred during the previous 6 months (e.g., when capacity release was offered, amount accepted, prices);
3. Required MERC to provide a detailed discussion of each capacity substitution in its annual demand entitlement filings on a going-forward basis.⁶

February 17, 2023 The Commission issued its *Order Requiring Actions to Mitigate Impacts From Future Natural Gas Price Spikes, Setting Filing Requirements, and Initiating a Proceeding to Establish Gas Resource Planning Requirements* in Docket Nos. G999/CI-21-135, G008/M-21-138, G004/M-21- 235, G002/CI-21-610, and G011/CI-21-611. Ordering Paragraphs 9 and 10 stated the following:

9. In future contract demand entitlement filings, the gas utilities in this docket shall discuss how changes to their pipeline capacity affect their supply diversity and, if pipeline capacity comes at a cost premium but increases supply diversity, provide a meaningful cost/benefit discussion of the tradeoff, including a comparison with the least-cost capacity option.

10. Each gas utility in this docket shall include in its relevant annual, forward-looking gas planning or hedging filings:

- A. Its expected supply mixes across different load and weather conditions throughout each month of the upcoming winter season;
- B. The forecasted minimum, average, and maximum day load requirements; and

⁵ *In the Matter of a Petition by Minnesota Energy Resources Corporation (MERC-Consolidated, MERC -Northern Natural Gas (NNG), and MERC-Albert Lea) for Approval of Changes in Contract Demand Entitlements for the 2015-2016 Heating Season Supply Plan effective November 1, 2015*, Order, April 28, 2016, Docket Nos. G 011/M-15-722; G-011/M-15-723; G-011/M-15-724, (eDockets) [20164-120779-03](#) at 2, (hereinafter “April 28, 2016 Order”).

⁶ *In the Matter of a Petition by Minnesota Energy Resources Corporation (MERC) for Evaluation and Approval of Rider Recovery for Its Rochester Natural Gas Extension Project*, Order, May 8, 2018, Docket No. G-011/M-15-895, (eDockets) [20185-142843-01](#) at 1, (hereinafter “May 8, 2018 Order”).

C. The expected mix of baseload, storage and spot supply on those days.

| | |
|------------------|--|
| January 17, 2024 | In its January 17, 2024 Order in Docket No. G011/M-23-359, the Commission accepted the Company's proposed demand entitlement and allowed the Company to recover associated demand costs through the monthly PGA effective November 1, 2023. ⁷ |
| April 3, 2024 | MERC filed petition in Docket No. G011/M-24-155, requesting approval to acquire an additional 4,777 Dth capacity for the 2023-2024 heating season. ⁸ |
| July 16, 2024 | The Commission accepted the Company's proposed demand entitlement in Docket No. G011/M-24-155 and allowed the Company to recover associated demand costs through the monthly PGA effective April 1, 2024. ⁹ |
| June 16, 2025 | The Commission accepted the Company's proposed demand entitlement in Docket No. G011/M-24-270 and allowed the Company to recover associated demand costs through the monthly PGA effective November 1, 2024. ¹⁰ |
| August 1, 2025 | The Company submits its Petition in the current proceeding, requesting a change to the Company's demand entitlements pursuant to Minn. R. 7829.2910, Subp. 2. ¹¹ |

III. DEPARTMENT ANALYSIS

The Department provides an analysis for the Company's Petition and Update that includes the following areas:

- Summary of proposed changes;

⁷*In the Matter of Minnesota Energy Resources Corporation's (MERC) Petition for Approval of a Change in Demand Entitlement for its NNG System, Order, January 17, 2024, Docket No. G-011/M-23-358, (eDockets) [20241-202257-01](#), (hereinafter "January 17, 2024 Order").*

⁸*In the Matter of the Minnesota Energy Resources Corporation (MERC) Petition for Approval of a Change in Demand Entitlement for its NNG System, Minnesota Energy Resources Corporation, Petition, April 3, 2024, Docket No. G011/M-24-155, (eDockets) [20244-204978-01](#), (hereinafter "MERC 2023-2024 Heating Season Capacity Update Petition").*

⁹*In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a Change in Demand Entitlement for its NNG System, Order, July 16, 2024, Docket No. G-011/M-24-155, (eDockets) [20247-208672-01](#).*

¹⁰*In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a Change in Demand Entitlement for its NNG System and In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a Change in Demand Entitlement for its Consolidated System, Order, June 16, 2025, Docket No. G-011/M-24-270; and G-011/M-24-269, (eDockets) [20256-219928-01](#).*

¹¹*[Minn. R. 7825.2910, Subp. 2](#)*

- Changes to Capacity and non-capacity items;
- The design-day requirements;
- The reserve margin;
- The PGA cost recovery proposal;
- NNG's future capacity outlook;
- Rochester Project Compliance;
- Commission Orders in Docket No. G999/CI-21-135 and G011/CI-21-611; and
- Northern's Rate Case at Federal Energy Regulatory Commission (FERC).

A. SUMMARY OF PROPOSED CHANGES

MERC proposes to increase its total design-day requirement by 7,009 dekatherms (Dth) to 297,178 Dth/day. The Company currently has a total design-day capacity of 320,042 Dth/day on its MERC-NNG system and proposes no overall change for the 2025-2026 heating season. The Company proposes a reserve margin of 7.76 percent, a decrease of 2.60 percent from the 10.36 percent reserve margin for the 2024-2025 heating season. MERC also proposes changes to its non-design-day deliverable contracts.¹²

MERC's proposed entitlement changes results in an estimated increase in demand costs for residential customers of \$0.0050 per Dth, 0.39 percent, or approximately \$0.43 per year compared to the rates included in the Company's July 2025 PGA.¹³ MERC also includes commodity costs in this Petition. Commodity costs are unusual for demand entitlement filings; however, the Commission's May 5, 2017 Order requires the Company to include Rochester Project-related capacity costs in the commodity portion of the monthly Purchase Gas Adjustment(PGA).¹⁴ MERC's estimated change to the commodity cost for residential customers is a decrease of \$0.0420 per Dth, resulting in an annual decrease of \$3.60 for an average customer's bill, or approximately 1.84 percent.¹⁵

MERC also requests that the Commission allow recovery of the associated demand costs in the Company's monthly PGA effective November 1, 2025.¹⁶

¹² Petition at 5.

¹³ Petition Attachment 4.

¹⁴ *In the Matter of a Petition by Minnesota Energy Resources Corporation (MERC) for Evaluation and Approval of Rider Recovery for Its Rochester Natural Gas Extension Project*, Order, May 8, 2018, Docket No. G-011/M-15-895, (eDockets) [20175-131604-01](#) at 15, (hereinafter "May 5, 2017 Order").

¹⁵ Petition Attachment 4.

¹⁶ *Id.*, at 3.

B. CHANGES TO CAPACITY AND NON-CAPACITY ITEMS

B.1. Capacity Contracts

As an initial matter, the Department confirms that, as required by the Commission's Order Point 9¹⁷ of its April 28, 2016 Order that MERC provided separate data on its summer and winter demand entitlements.¹⁸

As noted in Table 1, and indicated in Department Attachment 1, the Company does not propose changes to its overall entitlement level in its Petition. However, capacity levels have changed since the Company's November 1, 2023 Update, as the Company submitted the MERC 2023-2024 Heating Season Capacity Update Petition on April, 2024, wherein the Company purchased an additional 4,777 Dth/day capacity under the TFX (Max Rate) with a term of April 2024 to March 2026.¹⁹

Table 1: MERC's NNG Total Entitlement Levels

| Filing | Previous Entitlement (Dth) | Proposed Entitlement (Dth) | Entitlement Changes (Dth) | Change From Previous Filing (%) |
|------------------|----------------------------|----------------------------|---------------------------|---------------------------------|
| November 1, 2023 | 313,756 | 315,465 | 1,709 | 0.54 % |
| March 28, 2024 | 315,465 | 320,242 | 4,777 | 1.51% |
| November 1, 2024 | 320,242 | 320,242 | 0 | 0.00% |
| Aug 1, 2025 | 320,242 | 320,242 | 0 | 0.00% |

The Company explains its rationale for acquiring the capacity and the resulting cost impact:

MERC has been awarded and acquired an additional 4,777 dth of capacity on the NNG system via two NNG Open Seasons held in March 2024. As explained by MERC in the Company's November 1, 2023 updated Demand Entitlement filing in the above-referenced docket, while MERC-NNG has surplus capacity at a Total System level through 2023-2024, there are operating areas of MERC-NNG that are very short on capacity. The 4,777 dth in increased capacity is needed to provide adequate capacity, plus a 5 percent reserve margin, in those areas that are forecasted to be short of design day needs over the forecast horizon.

The 4,777 dth of additional capacity that MERC acquired is priced at NNG's tariffed TFX (Max Rate) rate, and has a term of April 2024 – March 2026, which, in comparison to an expansion project, has a much smaller impact

¹⁷ Order Point 9 states, "Required MERC to separate its summer and winter demand entitlements as reflected in Attachment 4 of its petitions, rather than combining the data as reflected on Attachment 3 of its petitions." April 28, 2016 Order at 2.

¹⁸ Update Attachment 3.

¹⁹ MERC 2023-2024 Heating Season Capacity Update Petition at 2.

on customer rates while aiding capacity shortages in the near-term time period. The impact to customers in the context of the 2023-2024 Demand Entitlement filing will be an increase to demand costs of \$323,556 on an annualized basis, as shown on the attached updated Attachment 4, page 2. This results in an increased demand cost of \$0.00125 per therm for the period April 1, 2024 – October 31, 2024 as shown in Attachment 4, pages 1 and 2.²⁰ [citations omitted]

Regarding NNG capacity, NNG's reallocation of TF-12B and TF-12V services are not known until the Update, and MERC indicated some changes. The changes are in accordance with NNG's tariff approved by the Federal Energy Regulatory Commission (FERC). Usually there is no deliverability difference between TF-12B and TF-12V services, but TF-12B service is less expensive than TF-12V service. The TF-12B decreased by 4,153 Dth/day with a corresponding increase in the same amount to the TF-12V service.

The Petition outlines changes to contract costs,²¹ but does not result in changes to the overall entitlement levels. The contract changes result in an additional \$128,576 of demand costs and a decrease of approximately \$1,176,694 in commodity costs compared to the 2024-2025 heating season.

B.2. Changes to Non-Capacity Items

MERC does not propose any new additions to its non-capacity items in this demand entitlement filing.

C. DESIGN-DAY REQUIREMENTS

The Company proposes to increase its total design-day in Dth as follows. Table 2 shows MERC's consolidated design-day levels.

Table 2: MERC's NNG Design-Day Levels

| Filing | Previous Design-Day (Dth) | Proposed Design-Day (Dth) | Design-Day Changes (Dth) | Change From Previous Year (%) |
|-------------|---------------------------|---------------------------|--------------------------|-------------------------------|
| Aug 1, 2025 | 290,169 | 297,178 | 7,009 | 2.42% |

MERC states the following:²²

The NNG Design-Day requirement has increased by 7,009 dekatherms (dth), or 2.4% from the 2024-2025 heating season.

For the Demand Entitlement filing effective November 1, 2025, the total Design-Day requirement for MERC NNG is 297,178 dth (Attachment 1). The

²⁰ *Id.*

²¹ Petition Attachment 8.

²² Petition, Attachment C at 2-3.

difference between the total Design-Day requirement and total Design Day capacity results in a 7.76% reserve margin (Attachment 3).

MERC uses a similar approach to last year's filing for its design-day analysis. As a result of MERC's telemetry program, which makes it possible for all interruptible customers to have daily metered data, the Company no longer has to estimate interruptible customers' peak-day impact for the customers in the Company's former MERC-NNG PGA service area. The Company states the following:²³

Order Point 11 from the Commission's April 28, 2016, Order in Docket Nos. G011/M-15-722, G011/M-15-723, and G011/M-15-724, required:

If the Commission approves MERC's general rate case proposal to consolidate its MERC-NNG and MERC-Albert Lea PGA areas into one PGA area, direct MERC to work with the Department in developing an appropriate Design Day regression analysis methodology for its subsequent demand entitlement petitions until MERC has three years daily interruptible data available for all its interruptible customers for the consolidated NNG PGA area.

MERC's 2024-2025 Design-Day Regression analysis utilizes daily telemetry data for all of the MERC-NNG customers. MERC obtained the daily large volume transportation, interruptible and joint interruptible customer's volumes by pipeline and weather station (Data A). In addition, MERC obtained the daily small volume interruptible customer's volumes by pipeline and weather station (Data B). MERC calculated the daily firm volumes by subtracting both Data A and Data B from the total throughput volumes.

In addition, MERC makes some adjustments to its data—for example the regression analysis for the NNG pipeline. In its Petition MERC states the following:²⁴

Review daily total metered throughput, Data A, and Data B and identify missing or bad reads, and to the extent possible, fix missing or bad reads. To the extent that the data could not be fixed, it was not included in the regressions.

In its Petition, MERC also states the following:²⁵

Identify the coldest Adjusted Heating Degree Day (AHDD) since January 1996 for each weather station. Note, this is a change in practice from prior analysis that used a rolling 20-year period. The change was included because many weather stations experienced historically cold weather in the January/February 1996 time period and without inclusion of that

²³ Petition, Attachment 12 page 11.

²⁴ Petition, Attachment 12 at page 3.

²⁵ *Id.*

additional data from January/February 1996, AHDD were materially lower and not reflective of MERC's capacity needs.

To the Department's knowledge, MERC's prior design-day analyses have relied on the coldest days from 1996. In any event, the Department agrees with MERC that it would not be acceptable to use a rolling 20-year weather period in the design-day calculations when planning for the Company's capacity needs in meeting the design-day. The 20-year weather period may not necessarily reflect the coldest days that need to be planned for.

MERC's design-day analysis, as described in the Petition,²⁶ is similar to what was used by the Company in recent demand entitlement filings. The Company's design-day analysis is based on Ordinary Least Squares (OLS) regression and daily heating season (i.e., December, January, February) data over the period from December 2022 to February 2025.

Given the disparate nature of MERC's service area, the Company used six separate regression models for the various parts of the NNG PGA area. MERC used Adjusted Heating Degree Days (AHDD) and various other determinants (e.g., month, day of the week, holiday) to estimate daily heating season consumption for each weather station area. The Department reviewed each of MERC's design-day regression models, and except for Ortonville, concluded that the signs of the determinant coefficients are appropriate and reasonable. The Ortonville regression is discussed below.

During the 2018-2019 heating season, MERC's service area, and the entire state of Minnesota, experienced a cold weather outbreak in late January and early February. This cold weather event marked the coldest conditions since the 1995-1996 heating season, and the Company included information and a discussion regarding this event in its Petition.²⁷ On an AHDD basis, the cold weather event during the 2018-2019 heating season was the coldest weather on record for all of MERC's NNG PGA system weather stations (Table 3).

Table 3: Coldest Weather Conditions

| <u>Station</u> | <u>Date</u> | <u>Avg. Temp (F)</u> | <u>Avg. Wind Speed (mph)</u> | <u>HDD65</u> | <u>AHDD65</u> | <u>AHDD65-1</u> |
|---------------------|-------------|----------------------|------------------------------|--------------|---------------|-----------------|
| Bemidji | 1/29/2019 | -32 | 14 | 97 | 110 | 84 |
| Cloquet* | 1/29/2019 | -24 | 16 | 89 | 103 | 74 |
| Fargo | 1/18/1996 | -16 | 34 | 81 | 109 | 85 |
| International Falls | 2/2/1996 | -34 | 8 | 99 | 107 | 107 |
| Minneapolis* | 1/29/2019 | -20 | 17 | 85 | 100 | 71 |
| Rochester* | 1/29/2019 | -20 | 21 | 85 | 104 | 76 |
| Worthington * | 1/29/2019 | -20 | 21 | 85 | 103 | 81 |
| Ortonville* | 1/29/2019 | -23 | 14 | 88 | 101 | 77 |

* NNG PGA weather station.

²⁶ Petition, Attachment 12.

²⁷ Petition, Attachment 12 at pages 4-5.

In previous demand entitlement filings, the Company's planning objective was based on the coldest day, defined as the highest AHDD, for each of MERC's regional regression models. Beginning with the 2019 demand entitlement filing (covering the 2019-2020 heating season), the Company considered the day prior to the coldest day (AHDD65-1) when determining whether a specific date represents the planning objective for a weather station. MERC provides the following explanation in its Petition:²⁸

While the January 2019 cold weather outbreak was significant, it was not considered to be as severe as the weather conditions experienced in 1996. With the exception of Worthington, the 1996 weather conditions overall were colder when considering both the current day and the prior day weather conditions.

As a result, the following planning objective data for the various weather stations were used in the Company's design-day analysis.

Table 4: MERC Planning Objective Data

| <u>Station</u> | <u>Date</u> | <u>Avg. Temp (F)</u> | <u>Avg. Wind Speed (mph)</u> | <u>HDD65</u> | <u>AHDD65</u> | <u>AHDD65- 1</u> |
|---------------------|-------------|------------------------------|--|--------------|---------------|----------------------|
| Bemidji | 2/1/1996 | -34 | 8 | 99 | 107 | 94 |
| Cloquet* | 2/2/1996 | -31 | 7 | 96 | 103 | 100 |
| Fargo | 1/18/1996 | -16 | 34 | 81 | 109 | 85 |
| International Falls | 2/2/1996 | -34 | 8 | 99 | 107 | 107 |
| Minneapolis* | 2/2/1996 | -25 | 8 | 90 | 97 | 92 |
| Rochester* | 2/2/1996 | -27 | 10 | 92 | 101 | 94 |
| Worthington* | 1/29/2019 | -20 | 21 | 85 | 103 | 81 |
| Ortonville* | 1/14/2009 | -21 | 11 | 86 | 95 | 86 |

* NNG PGA weather station.

As shown in Table 4, for each of the regression models except Worthington, MERC's planning objective did not occur during the data period (2019 through 2022); as such, the Company adjusted the results to approximate usage at the planning objective. The Company's combined regression analyses resulted in a design-day estimate of 282,406 Dth/day. However, as explained in MERC's filing, the Company modified the analysis such that the ultimate design-day estimate was based on a higher throughput estimate that factors in a volume risk adjustment. This adjustment resulted in a calculated design-day estimate of 297,178 Dth/day, which is 7,009 Dth/day greater than the design-day estimate in last year's demand entitlement filing. The Company states that volume risk adjustments were incorporated into the forecast to provide a confidence level that the daily metered load under design conditions would not exceed the daily metered regression estimate.²⁹ In other words, the volume risk adjustment is meant to modify the results to ensure a bias toward reliability since this adjustment places the design-day estimate at the top end of expected design-day conditions based on the regressions. This

²⁸ *Ibid.*

²⁹ Petition, Attachment 12 at page 6.

post- regression adjustment is similar to adjustments the Company used in previous demand entitlement filings. The Department reviewed MERC's analysis and was able to replicate the Company's results.

In addition, the Company tried to estimate firm peak day estimates for each of its gate stations. The Commission's April 28, 2016, Order in Docket Nos. G011/M-15-722, G011/M-15-723, and G011/M-15-724, at Order point 10, stated in part the following:³⁰

Required MERC to verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain.

In its Petition, MERC states the following:³¹

Order Point 10 of the Commission's April 28, 2016, Order in Docket No. G011/M-15-723 required that MERC verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain. MERC has carefully reviewed the results of its regression analysis and verified that the results are consistent with the underlying theory the analysis attempts to explain. Please see MERC's May 31, 2016, compliance filing in Docket Nos. G011/M-15-722, G011/M-15-723, and G011/M-15-724 for further discussion of this issue.

In MERC's analysis for Ortonville, the Company used a regression model with a negative intercept term. The Department concludes that, while MERC's use of a negative intercept in its Ortonville regression analysis is not ideal, our concerns remain somewhat mitigated as described in the Department's previous comments,³² where the Department stated:

In conclusion, the Department agrees that MERC appropriately excluded the non-winter months from its analysis. Because both the non-weather and weather sensitive needs are implicit in the December, January, and February historical data, and in light of the fact that Ortonville represents a relatively minor portion of MERC's overall capacity needs, the Department's concern regarding the negative intercept is somewhat mitigated. However, in its future demand entitlement filings, the Department recommends that MERC check the results of its regression analysis to ensure the results are consistent with the underlying theory the analysis attempts to explain.

³⁰ April 28, 2016 Order at 2.

³¹ Petition, Attachment 12 at pages 10-11.

³² *In the Matter of a Petition by Minnesota Energy Resources Corporation MERC -Northern Natural Gas (NNG), for Approval of Changes in Contract Demand Entitlement for the 2015-2016 Heating Season Supply Plan effective November 1, 2015*, Department of Commerce, Response Comments, February 22, 2016, Docket No. G-011/M-15-723, (eDockets) [20162-118555-01](#) at 3-4.

Thus, MERC complied with the Commission's April 28, 2016, Order described above.

The Department notes that MERC appropriately corrected its models for autocorrelation, as required by the Commission's February 4, 2015 Order, wherein the Commission required that, in its future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Given the fact that MERC must plan for its design-day, the Department concludes that MERC's approach is not unreasonable. As a result, the Department recommends that the Commission approve the Company's peak-day analysis.

D. PROPOSED RESERVE MARGIN

As indicated in Department Attachment 1 and shown in Table 5, the proposed reserve margin is 30,073 Dth, or 10.36%, as follows:

Table 5: MERC-NNG Reserve Margin

| Filing | Total Entitlement (Dth) | Design-day Estimate (Dth) | Difference (Dth) | Reserve Margin % | Percentage Point Change From Previous Year |
|-------------|-------------------------|---------------------------|------------------|------------------|--|
| Aug 1, 2025 | 320,242 | 297,178 | 23,064 | 7.76% | (2.60)% |

The proposed reserve margin of 7.76% represents a decrease of 2.60 percentage points as compared to last year's reserve margin of 10.36%.³³ The Company's proposed reserve margin is higher than the Commission typically approves; in this case, the higher reserve margin is driven by the Rochester Project and the nature of large natural gas projects. The Commission was aware of these facts when it approved the Rochester Project and required MERC, as discussed in Section III.G below, to explore methods such as capacity release to mitigate higher reserve margins.

Based on the Department's review of MERC's historic design-day data, regression results, and the nature of the Rochester Project and associated capacity expansions, the Department concludes that MERC's reserve margin is acceptable. The Department will continue to monitor the reserve margin in future demand entitlement filings and capacity release compliance filings.

E. THE COMPANY'S PGA COST RECOVERY PROPOSAL

In its Attachment 4 of the Petition, MERC compares its July 2025 PGA to MERC's projected November 2025 PGA rates to highlight the changes in demand costs. According to MERC's calculations, the Company's demand entitlement proposal would result in the following annual demand cost impacts:

- annual bill increase of \$0.34 related to demand costs, or approximately 0.39%, for the average General Service customer consuming 86 Dth annually;

³³ Petition Attachment 3.

- annual bill increase of \$3.90 related to demand costs, or approximately 0.39%, for the average Small Volume Firm customer Class 2 consuming 781 Dth annually;
- annual bill increase of \$79.93 related to demand costs, or approximately 0.39%, for the average Large Volume Firm customer consuming 15,986 Dth annually; and
- no demand cost impacts related to MERC-NNG's interruptible rate classes.

The Department notes that MERC appropriately included Rochester Project related demand costs in the commodity portion of the PGA, as required by the Commission's May 8, 2018 Order. For this reason, the Department shows the commodity related bill impacts that include the Rochester Project in MERC's calculations in Table 6.³⁴

Table 6: Comparison of July 2025 PGA Commodity Cost to Projected November 2025 PGA Proposal by Customer Class

| Customer Class | Annual Difference (\$/yr/customer) | Percentage Change |
|---------------------|---------------------------------------|-------------------|
| Residential | (\$3.60) | (1.84)% |
| Small Commercial | (\$32.80) | (1.84)% |
| Large Commercial | (\$671.42) | (1.84)% |
| Small Interruptible | (\$172.61) | (1.84)% |
| Large Interruptible | (\$927.83) | (1.84)% |

The Department will provide its final recommendations after the Company files its November 2025 Update.

F. MERC-NNG'S FUTURE CAPACITY OUTLOOK

In its Petition the Company states that while it has a surplus of 8,205 dth/day at a total system level, there are operating areas of MERC-NNG that have excess capacity, such as in the Rochester area (and as previously discussed above); elsewhere on MERC-NNG, there are operating areas, such as the Farmington area, that are short on capacity. MERC states the following:

The Rochester and NNG Farmington area have different laterals on the NNG system and are therefore not integrated. Since they are not served by the same NNG lateral, utilizing the excess Rochester capacity to serve the NNG Farmington area is not an operationally viable solution, nor allowed by NNG.

Regarding the areas where MERC is short on capacity, the Company provided initial discussion regarding pipeline alternatives, LNG, currently available NNG capacity and NNG pipeline expansion to address the potential shortages. Given that MERC has ongoing negotiations regarding pipeline

³⁴ July 2025 Northern PGA, Docket No. G011/AA-25-59 and Projected November 2025 Northern PGA.

capacity, and NNG has filed a rate case, as briefly discussed in Section III.I below; the Department is in the process of evaluating MERC's discussion regarding its future capacity outlook and will provide its comments after the Company's November Update.

G. MERC'S ROCHESTER PROJECT COMPLIANCE

In the May 8, 2018 Order,³⁵ the Commission required MERC to provide semi-annual updates regarding capacity release associated with the Rochester Project and a discussion of each capacity substitution in its annual demand entitlement filing on a going-forward basis.

MERC provided information regarding this compliance requirement in its Petition.³⁶ The Company explained that the second phase of capacity associated with the Rochester Project entered service on November 1, 2019. MERC stated that it will not have to submit bi-annual compliance filings regarding capacity releases. The Company also stated that it has used Rochester Project capacity as a capacity substitution for several previous projects (*i.e.*, Balaton, Esko, Pengilly) and, although no capacity substitutions have occurred recently, MERC will continue to provide updates on future capacity substitutions in future demand entitlement filings.³⁷

The Department concludes that MERC complied with the Commission's Rochester Project compliance requirement.

H. COMMISSION ORDERS IN DOCKET NO. G999/CI-21-135 AND G011/CI-21-611

Ordering Paragraphs 9 and 10 of the Commission's February 17, 2023 Order state the following:

9. In future contract demand entitlement filings, the gas utilities in this docket shall discuss how changes to their pipeline capacity affect their supply diversity and, if pipeline capacity comes at a cost premium but increases supply diversity, provide a meaningful cost/benefit discussion of the tradeoff, including a comparison with the least-cost capacity option.

10. Each gas utility in this docket shall include in its relevant annual, forward-looking gas planning or hedging filings:

- A. Its expected supply mixes across different load and weather conditions throughout each month of the upcoming winter season;
- B. The forecasted minimum, average, and maximum day load requirements; and

³⁵ Order Point 1. May 8, 2018 Order at 1.

³⁶ Petition, Attachment C at 2, and 8-9.

³⁷ *Id.* at 9.

C. The expected mix of baseload, storage, and spot supply on those days.³⁸

In its Petition, the Company provides the required information.³⁹ MERC states:

As mentioned above, MERC does not have any change to net design-day deliverability for 2025-2026 as compared to 2024-2025.⁴⁰

Regarding compliance with paragraph 10, the Company states that it provided the requested information in its Attachment 6 using the three prior years data. MERC states the following:

Attachment 6, page 3, provides this information for the November 2025 through March 2026 period. Load estimates are based on the previous three years observed data, except for the December through February months, in which the Design Day (i.e. Peak Day) was used to represent the maximum load. While three years of historical data provide a reasonable estimate, conditions can deviate and provide load requirements different from those in the past.⁴¹

The Department concludes that MERC complied with the February 17, 2023 Order. The Department also concludes that MERC's explanations regarding its compliance with the Ordering paragraphs 9 and 10 are acceptable. However, the prudence of the natural gas costs inferred above, and actions taken by MERC to minimize those costs will be evaluated in a future proceeding when MERC files its annual automatic adjustment report and true up filing on September 1, 2026.

I. NORTHERN'S RATE CASE AT FEDERAL ENERGY REGULATORY COMMISSION (FERC)

On July 1, 2025 Northern filed a rate case at FERC in Docket No. RP25-989 and proposed dramatic increases in their rates. The rates are effective January 1, 2026 subject to refund. In its Petition the Company stated the following:⁴²

On July 1, 2025, Northern Natural Gas (NNG) filed a Section 4 rate case with FERC. NNG stated that the proposed increase in rates is driven primarily by the significant capital being invested in the pipeline system to comply with pipeline safety requirements and maintain the reliability of service to customers. NNG has requested that rates go into effect January 1, 2026. Since the result of the rate case is unknown at this time, MERC has held rates at current levels for determining its demand rate in this proceeding. In accordance with Minn. R. 7825.2910, MERC will reflect

³⁸ February 17, 2023 Order at 23.

³⁹ Petition, Attachment C at 5 and 7-9 and Attachment 6 at 3.

⁴⁰ *Id.*

⁴¹ Petition, Attachment C at 7.

⁴² Petition, Attachment C at 9-10.

actual rate increases in its monthly PGA filing when those rates go into effect.

The Department recommends that MERC provide an update regarding NNG's rate case, including the projected impacts of the NNG rate case—for example, on demand costs and on its future capacity outlook—in MERC's November update.

IV. DEPARTMENT RECOMMENDATIONS

The Department recommends approval of the Company's Design-Day Analysis, but withholds its final recommendations for the remainder of the Company's Petition until after the Company files its Reply Comments and files its update in November 2025.

Department Attachment 1
Docket No. G011/M-25-68
MERC NNG 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) | % Reserve [(7)-(4)]/(4) |
| 2025-2026 | 213,567 | 1,045 | 0.49% | 297,178 | 7,009 | 2.42% | 320,242 | 0 | 0.00% | 23,064 | 7.76% |
| 2024-2025 | 212,522 | 3,160 | 1.51% | 290,169 | (765) | -0.26% | 320,242 | 4,777 | 1.51% | 30,073 | 10.36% |
| 2023-2024 | 209,362 | 957 | 0.46% | 290,934 | (316) | -0.11% | 315,465 | 1,709 | 0.54% | 24,531 | 8.43% |
| 2022-2023 | 208,405 | 2,054 | 1.00% | 291,250 | 8,540 | 3.02% | 313,756 | 0 | 0.00% | 22,506 | 7.73% |
| 2021-2022 | 206,351 | 1,570 | 0.77% | 282,710 | 1,914 | 0.68% | 313,756 | (593) | -0.19% | 31,046 | 10.98% |
| 2020-2021 | 204,781 | 3,591 | 1.78% | 280,796 | 3,420 | 1.23% | 314,349 | 0 | 0.00% | 33,553 | 11.95% |
| 2019-2020 | 201,190 | 2,562 | 1.29% | 277,376 | 3,534 | 1.29% | 314,349 | 37,093 | 13.38% | 36,973 | 13.33% |
| 2018-2019 | 198,628 | 637 | 0.32% | 273,842 | 6,059 | 2.26% | 277,256 | 10,939 | 4.11% | 3,414 | 1.25% |
| 2017-2018 | 197,991 | 2,680 | 1.37% | 267,783 | 5,459 | 2.08% | 266,317 | 0 | 0.00% | (1,466) | -0.55% |
| 2016-2017 | 195,311 | 3,295 | 1.72% | 262,324 | 3,248 | 1.25% | 266,317 | 0 | 0.00% | 3,993 | 1.52% |
| 2015-2016 | 192,016 | 2,938 | 1.55% | 259,076 | (14,841) | -5.42% | 266,317 | (14,287) | -5.09% | 7,241 | 2.79% |
| 2014-2015 | 189,078 | (176) | -0.09% | 273,917 | 15,004 | 5.79% | 280,604 | 10,000 | 3.70% | 6,687 | 2.44% |
| 2013-2014 | 189,254 | 1,709 | 0.91% | 258,913 | 19,588 | 8.18% | 270,604 | 22,900 | 9.24% | 11,691 | 4.52% |
| 2012-2013 | 187,545 | 1,655 | 0.89% | 239,325 | (8,657) | -3.49% | 247,704 | (15,771) | -5.99% | 8,379 | 3.50% |
| 2011-2012 | 185,890 | (720) | -0.39% | 247,982 | 13,075 | 5.57% | 263,475 | (15,690) | -5.62% | 15,493 | 6.25% |
| 2010-2011 | 186,610 | 799 | 0.43% | 234,907 | (9,694) | -3.96% | 279,165 | 7,000 | 2.57% | 44,258 | 18.84% |
| 2009-2010 | 185,811 | 1,243 | 0.67% | 244,601 | (19,298) | -7.31% | 272,165 | 4,227 | 1.58% | 27,564 | 11.27% |
| 2008-2009 | 184,568 | 1,854 | 1.01% | 263,899 | 23,416 | 9.74% | 267,938 | 0 | 0.00% | 4,039 | 1.53% |
| 2007-2008 | 182,714 | 7,073 | 4.03% | 240,483 | 1,729 | 0.72% | 267,938 | 2,036 | 0.77% | 27,455 | 11.42% |
| 2006-2007 | 175,641 | | | 238,754 | | | 265,902 | | | 27,148 | 11.37% |
| Average | | 1.04% | | | 1.25% | | | | 1.08% | | 7.33% |

| Heating Season | Firm Peak-Day Sendout** | | | Per Customer Metrics | | | |
|----------------|-----------------------------|---------------------------|-----------------------------|-------------------------------------|---------------------------------|----------------------------------|-------------------------------------|
| | (12) | (13) | (14) | (15) | (16) | (17) | (18) |
| | 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) |
| 2025-2026 | unknown | | | 0.1080 | 1.3915 | 1.4995 | unknown |
| 2024-2025 | 244,679 | 14,128 | 6.13% | 0.1415 | 1.3654 | 1.5069 | 1.1513 |
| 2023-2024 | 230,551 | (15,896) | -6.45% | 0.1172 | 1.3896 | 1.5068 | 1.1012 |
| 2022-2023 | 246,447 | 11,590 | 4.93% | 0.1080 | 1.3975 | 1.5055 | 1.1825 |
| 2021-2022 | 234,857 | (11,398) | -4.63% | 0.1505 | 1.3700 | 1.5205 | 1.1381 |
| 2020-2021 | 246,255 | 25,917 | 11.76% | 0.1638 | 1.3712 | 1.5350 | 1.2025 |
| 2019-2020 | 220,338 | (48,510) | -18.04% | 0.1838 | 1.3787 | 1.5624 | 1.0952 |
| 2018-2019 | 268,848 | 34,903 | 14.92% | 0.0172 | 1.3787 | 1.3959 | 1.3535 |
| 2017-2018 | 233,945 | 21,292 | 10.01% | -0.0074 | 1.3525 | 1.3451 | 1.1816 |
| 2016-2017 | 212,653 | (2,524) | -1.17% | 0.0204 | 1.3431 | 1.3636 | 1.0888 |
| 2015-2016 | 215,177 | 10,612 | 5.19% | 0.0377 | 1.3492 | 1.3870 | 1.1206 |
| 2014-2015 | 204,565 | (19,471) | -8.69% | 0.0354 | 1.4487 | 1.4841 | 1.0819 |
| 2013-2014 | 224,036 | | | 0.0618 | 1.3681 | 1.4298 | 1.1838 |
| 2012-2013 | | | | 0.0447 | 1.2761 | 1.3208 | |
| 2011-2012 | | | | 0.0833 | 1.3340 | 1.4174 | |
| 2010-2011 | | | | 0.2372 | 1.2588 | 1.4960 | |
| 2009-2010 | | | | 0.1483 | 1.3164 | 1.4647 | |
| 2008-2009 | | | | 0.0219 | 1.4298 | 1.4517 | |
| 2007-2008 | | | | 0.1503 | 1.3162 | 1.4664 | |
| 2006-2007 | | | | 0.1546 | 1.3593 | 1.5139 | |
| Average | | 1.27% | | 0.0989 | 1.3597 | 1.4586 | 1.1568 |

*Design-Day, and Total Entitlement were largely attributed the Albert Lea PGA however MERC did not increase its 2017-2018 Firm Customers to incorporate the Albert Lea PGA numbers

**Effective 7/1/13 MERC PGAs were consolidated from four down to two (NNG and Consolidated). Prior to 2013, no Peak-Day was calculated for only the NNG PGA.

Source: MERC's Attachments - 3 and 7.

CERTIFICATE OF SERVICE

I, Nicole Westling, 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
Comments

Docket No. G011/M-25-68

Dated this **2nd** day of **September 2025**

/s/Nicole Westling

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