

November 29, 2011

**VIA ELECTRONIC FILING**

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, MN 55101

Re: Petitions of Minnesota Energy Resources Corporation – PNG and Minnesota Energy Resources Corporation – NMU (MERC or Company) for approval of changes in demand entitlements on its NMU Purchased Gas Adjustment (PGA) system (10-1166), Great Lakes Transmission (Great Lakes) PGA system (10-1167) and Northern Natural Gas (Northern) PGA system (10-1168) Docket Nos. G007/M-10-1166, G011/M-10-1167, and G011/M-10-1168 Supplemental Reply Comments

Dear Dr. Haar:

On November 15, 2011, the Department of Commerce, Division of Energy Resources (Department) filed Comments in these matters, in response to the Reply Comments filed by MERC on May 2, 2011. In its Comments, the Department withdrew its original recommendation that costs in excess of the reserve margin in the 2009-2010 demand entitlement filings be disallowed because in its Reply Comments MERC adequately explained why the costs were incurred. The Department also made additional recommendations in its Comments. Specifically, the Department recommended that the Minnesota Public Utilities Commission (Commission):

- approve MERC—NMU's demand entitlement level;
- approve MERC-PNG's Northern PGA system demand entitlement level;
- approve MERC-PNG's Great Lakes PGA system demand entitlement level;
- approve the PGA recovery of costs associated with MERC-NMU's and MERC-PNG's Northern PGA system proposed demand entitlement level effective November 1, 2010, with the modification that MERC recover costs associated with the Bison Contract through the commodity portion of the monthly PGA and not the demand portion on a going-forward basis; and
- approve the PGA recovery of costs associated with MERC-PNG's Great Lakes PGA system proposed demand entitlement level effective November 1, 2010.

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Generally, MERC agrees with the Department's review of this matter. MERC briefly discussed with Department staff the consequences of recovering costs associated with the Bison Contract through the commodity portion of the monthly PGA. MERC was concerned that recovery of the costs as recommended would artificially inflate the commodity costs so that those costs could not be effectively compared to those of other utilities. MERC, however, is unable to quantify how this recommended mode of recovery might negatively impact ratepayers, and it will agree to the Department's recommendations.

The Department also made recommendations regarding MERC's future demand entitlement filings. Specifically, the Department recommended that MERC:

- clarify its statements regarding system balancing and provide detailed evidence in subsequent demand entitlement filings assuring the Commission that the appropriate customer group is paying for any balancing charges or penalties;
- consider, when preparing future demand entitlement filings, the inclusion of determinants in its design-day models that adequately account for any, and all, impact on usage associated with economic conditions; and
- consider, when preparing future demand entitlement filings, the detailed explanations of any, and all, causes of unexpected changes in usage that may impact the design-day calculation and what, if any, modifications MERC made to its design day numbers.

MERC agrees to provide the additional information requested in its future Demand Entitlement filings.

The Department also made note of its intention to discuss with MERC and all Minnesota-regulated natural gas utilities the following information:

- the Department's proposal that the demand entitlement filing date be changed and detailed explanation of when, on average, during the year the utility conducts its design-day analysis and subsequently procures demand entitlements for the upcoming heating season;
- how the utility determines whether additional capacity, beyond the amount calculated in the design-day analysis, is reasonable and should be recovered from firm customers during the current heating season; and
- whether the utility believes there is an effective mechanism to alleviate the issue of excess capacity during a given heating season, and the recovery of costs associated with these volumes, and whether the utility has discussed with the various interstate pipeline methods through which procured volumes can be phased in when they are needed rather than in advance of when the volumes are needed.

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MERC agrees the discussion of these issues would be helpful and is amenable to meeting with the Department at its request.

Thank you for your attention to this matter,

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern



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