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August 13, 2012

**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 (MERC-PNG) for Approval of a Changes in Demand Entitlement Petition for its Viking Gas Transmission Company (Viking) PGA System (11-1083), Northern Natural Gas (Northern or NNG) Transmission System (11-1084) PGA, and Northern Minnesota Utilities (NMU) System (11-1088) PGA System

Docket No. G011/M-11-1083; G011/M-11-1084; and G011/M-11-1088

MERC Reply Comments

Dear Dr. Haar:

On August 1, 2012, the Department of Commerce, Division of Energy Resources (Department) submitted Response Comments in this matter. The Department recommended that that Minnesota Public Utilities Commission (Commission):

- approve MERC-NMU's PGA system demand entitlement levels;
- approve the PGA recovery of costs associated with MERC-NMU's proposed demand entitlement levels effective November 1, 2011, with the modification that MERC recover costs associated with Storage and the Bison contract through the commodity portion of the monthly PGA;
- approve MERC-PNG's Northern PGA system demand entitlement levels;
- approve the PGA recovery of costs associated with MERC-PNG's Northern PGA system proposed demand entitlement levels effective November 1, 2011, with the modification that MERC recover costs associated with Storage and the Bison contract through the commodity portion of the monthly PGA; and
- order MERC to remove all balancing costs from demand costs and move them to commodity costs in its September 1, 2012, monthly PGA filings to coincide with the Annual Automatic Adjustment (AAA) Report and True-up filing due on September 1, 2012, costs.

MERC largely agrees with the Department's Recommendations. MERC notes that the Department has recommended MERC recover storage costs through the commodity, not the

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demand, portion of the monthly PGA, in previous demand entitlement filings. MERC has noted that it is open to that approach, and it will recover the storage costs through commodity at the direction of the Commission. Until the Commission decides this issue, MERC will continue to provide information delineating the storage costs as recovered through the commodity and demand portions of the PGA in its demand entitlement filings. See MERC's Demand Entitlement Petition, Attachment 4, pages 1-3 (storage as recovered through demand) and pages 4-6 (storage as recovered through commodity). If the Commission orders the recovery of storage through commodity, MERC requests the change be implemented on July 1 following the Commission's Order, to coincide with MERC's gas year. MERC believes the July 1 date will ease the administrative burden of reconciling the change in recovery procedure in its monthly PGA, demand entitlement and AAA and true-up filings.

MERC appreciates the Department's review and the opportunity to provide these Reply Comments. Please feel free to contact me at (612) 340-2881 if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

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