



Minnesota Energy Resources Corporation  
Suite 200  
1995 Rahncliff Court  
Eagan, MN 55122  
[www.minnesotaenergyresources.com](http://www.minnesotaenergyresources.com)

December 15, 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 the Petitions of Minnesota Energy Resources Corporation-Northern Natural Gas and Consolidated for Approval of a Change in Demand Entitlement

Docket Nos. G011/M-17-587 and G011/M-17-588

Compliance Filing of Minnesota Energy Resources Corporation

Dear Mr. Wolf:

On December 6, 2017, the Minnesota Public Utilities Commission ("Commission") issued an Order in Docket Nos. G011/M-16-650, G011/M-16-651, and G011/M-16-652 approving Minnesota Energy Resources Corporation's ("MERC" or the "Company") Petitions for changes in contract demand entitlements for its MERC-NNG, MERC-Albert Lea, and MERC-Consolidated purchased gas adjustment ("PGA") areas effective November 1, 2016. The Commission's Order required MERC to:

submit an explanation regarding how MERC plans to mitigate the risk of being unable to secure incremental winter capacity on all pipelines through which MERC currently contracts for natural gas capacity, as a supplement to its change in demand entitlements filings for the 2017-2018 heating season, within 10 days of the date of this Order.

In accordance with the Commission's Order, MERC submits this compliance filing to explain the Company's plans to mitigate the risk of being unable to secure incremental winter capacity on the pipelines on which the Company contracts. In general, there is limited risk of MERC of being unable to obtain incremental winter capacity as needed, with the exception of situations of physical constraints where interstate pipeline upgrades are required to obtain additional capacity, in which case MERC would most likely know, and be able to plan in advance for such a situation.

There are various alternative supply strategies that can be used when capacity is not available on an unconstrained pipeline. MERC has two main options for meeting its peak

day requirements when capacity is not available: (1) purchase city gate delivered supply; and (2) purchase back-haul capacity. MERC has similar options on all pipelines it uses including Northern Natural Gas (“NNG”), Viking Gas Transmission Pipeline, Great Lakes Gas Transmission, and Centra. In cases where a physical inadequacy of capacity prevents MERC from effectively serving a peak load, upgrades to the pipeline must take place as in the case of the Rochester Expansion Project.

In terms of the capacity on the Viking Gas Transmission pipeline, until the 2016/2017 winter, MERC had been purchasing incremental volumes of forward-haul capacity from Emerson to MERC city gates to cover the annual peak day forecast. In 2016, market conditions changed so that Viking capacity from Emerson to the east gained value and was, therefore, fully subscribed. To compensate, MERC purchased city gate delivered baseload supplies to meet its peak day requirement during the 2016/2017 winter. Firm baseload purchases are as reliable as MERC purchasing gas at Emerson and shipping it to the city gate on its own transport and customers were not put at a greater risk of supply disruption during a peak day event.

For the upcoming 2017/2018 winter season MERC obtained firm “back-haul” capacity on Viking to meet its incremental peak day needs for the upcoming heating season. Back-haul capacity allows for the movement of gas counter to the traditional direction of flow on the pipe through displacement. This capacity is not more or less firm than forward-haul capacity and provides the same level of protection against a peak day.

In summary, the current unavailability of firm, forward-haul capacity on the Viking pipeline is no indication of the ability of the pipeline to meet interconnected load, but rather the result of economic conditions, and MERC has secured backhaul capacity on Viking and as a whole MERC has sufficient capacity to cover its peak day load requirements for its Consolidated PGA for the 2017/2018 heating season.

In terms of capacity on NNG, as recently noted in MERC’s filing August 1, 2017 and November 1, 2017 filings in Docket No. G011/M-17-588, MERC has projected a very small negative reserve margin (negative 0.19 percent) for the upcoming winter season. In order to protect ratepayers, MERC will continue to monitor weather forecasts and in the event of a potential peak day, will call upon all interruptible customers to curtail their usage and will purchase citygate delivered gas for the period such supplies are needed (i.e., likely over a short term during the peak day event). The Company will be proactive in its approach with the full understanding of the current capacity situation and that it must act in a conservative manner with respect to the timing and volume of such a purchase. The alternative to proceeding with the small calculated negative reserve margin for the 2017-2018 heating season would have been to enter into a five year capacity contract with NNG at maximum tariffed rates. MERC concluded that in light of the calculated reserve margin and anticipated timing of additional Rochester capacity, entering into a five year contract for additional capacity would not be prudent or in the best interest of customers.

Mr. Daniel P. Wolf  
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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 of a Change in Demand  
Entitlement for its Consolidated System

Docket No. G011/M-17-587

In the Matter of the Petition of Minnesota  
Energy Resources Corporation for  
Approval of a Change in Demand  
Entitlement for its NNG System

Docket No. G011/M-17-588

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 15th day of December, 2017, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Compliance Filing 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 15th day of December, 2017.

/s/ Kristin M. Stastny

Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500  Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_17-587_M-17-587
Michael	Auger	mauger@usenergyservices.com	U S Energy Services, Inc.	Suite 1200 605 Highway 169 N Minneapolis, MN 554416531	Electronic Service	No	OFF_SL_17-587_M-17-587
Elizabeth	Brama	ebrama@briggs.com	Briggs and Morgan	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587
Jeanne	Cochran	Jeanne.Cochran@state.mn.us	Office of Administrative Hearings	P.O. Box 64620  St. Paul, MN 55164-0620	Electronic Service	No	OFF_SL_17-587_M-17-587
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-587_M-17-587
Seth	DeMerritt	ssdemerritt@integrysgroup.com	MERC (Holding)	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_17-587_M-17-587
Ian	Dobson	Residential.Utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_17-587_M-17-587
Darcy	Fabrizius	Darcy.fabrizius@constellation.com	Constellation Energy	N21 W23340 Ridgeview Pkwy  Waukesha, WI 53188	Electronic Service	No	OFF_SL_17-587_M-17-587
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_17-587_M-17-587
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St  Chicago, IL 60661	Electronic Service	No	OFF_SL_17-587_M-17-587

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East  St. Paul, MN 55101	Electronic Service	No	OFF_SL_17-587_M-17-587
Kimberly	Hellwig	kimberly.hellwig@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street  St. Paul, MN 551012134	Electronic Service	No	OFF_SL_17-587_M-17-587
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W  Rosemount, MN 55068	Electronic Service	No	OFF_SL_17-587_M-17-587
Peter	Madsen	peter.madsen@ag.state.mn.us	Office of the Attorney General-DOC	Bremer Tower, Suite 1800 445 Minnesota Street St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_17-587_M-17-587
Brian	Meloy	brian.meloy@stinson.com	Stinson, Leonard, Street LLP	50 S 6th St Ste 2600  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587
Joseph	Meyer	joseph.meyer@ag.state.mn.us	Office of the Attorney General-RUD	Bremer Tower, Suite 1400 445 Minnesota Street St Paul, MN 55101-2131	Electronic Service	No	OFF_SL_17-587_M-17-587
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750  St. Paul, MN 55101	Electronic Service	No	OFF_SL_17-587_M-17-587
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	7400 Lyndale Ave S Ste 190  Richfield, MN 55423	Electronic Service	No	OFF_SL_17-587_M-17-587
Colleen	Sipiorski	ctsipiorski@integrysgroup.com	Minnesota Energy Resources Corporation	700 North Adams Street  Green Bay, WI 54307	Electronic Service	No	OFF_SL_17-587_M-17-587
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-587_M-17-587
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_17-587_M-17-587
Casey	Whelan	cwhelan@usenergyservices.com	U.S. Energy Services, Inc.	605 Highway 169 N Ste 1200  Plymouth, MN 55441	Electronic Service	No	OFF_SL_17-587_M-17-587
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_17-587_M-17-587

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