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September 17, 2009

VIA ELECTRONIC FILING

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

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation-PNG for Approval of a Change in Demand Entitlement for its Viking Gas Transmission System
Docket No. G011/M-08-1331

Dear Dr. Haar:

Enclosed please find the Response Comments of Minnesota Energy Resources Corporation ("MERC" or "Company") in the above-referenced docket. MERC submitted its initial Petition to the Commission on November 3, 2008 and filed revised spreadsheets shortly thereafter on November 5, 2008. The OES issued its initial Comments on February 9, 2009. MERC filed its Reply Comments on March 6, 2009, a clarification to its Reply Comments on March 30, 2009, and a revised spreadsheet on August 12, 2009. On August 19, 2009, the OES issued Response Comments that noted areas in which the OES had continuing questions or concerns regarding the Company's proposal. The Company requests that the Commission accept these Response Comments, which address the issues raised by the OES in their August 19, 2009 Response Comments.

Thank you for your attention to this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

**STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

David C. Boyd
J. Dennis O'Brien
Thomas Pugh
Phyllis A. Reha
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Minnesota
Energy Resources Corporation-PNG for
Approval of a Change in Demand Entitlement
for its Viking Gas Transmission System

Docket No. G011/M-08-1331

**RESPONSE COMMENTS OF
MINNESOTA ENERGY RESOURCES CORPORATION**

Minnesota Energy Resources Corporation-PNG (“MERC” or “Company”) submits to the Minnesota Public Utilities Commission (“Commission”) these Response Comments in response to the August 19, 2009 Response Comments of the Minnesota Office of Energy Security (“OES”) in the above referenced matter.

MERC submitted its initial Petition to the Commission on November 3, 2008 and filed revised spreadsheets shortly thereafter on November 5, 2008. The OES issued its initial Comments on February 9, 2009. MERC filed its Reply Comments on March 6, 2009, a clarification to its Reply Comments on March 30, 2009, and a revised spreadsheet on August 12, 2009. On August 19, 2009, the OES issued Response Comments that noted areas in which the OES had continuing questions or concerns regarding the Company’s proposal. The Company requests that the Commission accept these Response Comments, which address the issues raised by the OES in their August 19, 2009 Response Comments.

A. Design-Day Study

The OES recommended that the Commission approve MERC-PNG's Viking system demand entitlement level without endorsing its design-day study analysis, noting that:

- 1) MERC-PNG's method has merit in terms of providing a more realistic estimate of use by interruptible customers on peak days;
- 2) MERC-PNG's system performed well in the past year; and
- 3) OES agrees with MERC-PNG that it would be helpful to continue to talk about the Company's method.

The OES stated that although it believes that MERC-PNG's current design-day methodology has advantages over its previous estimation technique, the OES concluded that there is not complete support for the Company's analysis in this docket.

Response

As the OES stated, MERC-PNG's system performed well in the past year, and MERC-PNG had sufficient firm capacity to meet its need during the 2008-2009 heating season. MERC also agrees with the OES that its new methodology provides a more realistic estimate of use by interruptible customers on peak days. In the Company's rate case in Docket No. G007,011/GR-08-835, the Commission approved MERC's proposal that all interruptible and transportation customers be required to install telemetry equipment. The use of telemetry equipment by all interruptible and transportation customers will provide the daily data to make the design day calculation more realistic. In particular, telemetry will provide MERC with daily interruptible and transportation volumes that can be deducted from the total daily throughput to ascertain actual firm consumption. MERC agrees that it would be helpful to meet with the OES to further discuss the Company's design-day methodology.

B. System Performance During the 2008-2009 Heating Season

In its initial Comments, the OES noted that MERC-PNG's Viking service territory has no peak shaving ability or available storage, and recommended that the Company provide information on whether it had sufficient capacity available for firm customers during the cold spells experienced in January and February 2009. MERC discussed this issue in the Company's Reply Comments, and the OES noted in its Response Comments that it has additional questions regarding MERC's response. The OES noted that it was unable to fully substantiate the Company's system performance discussion based on its review of the tabled filed on March 6, 2009.

In its Response Comments, the OES raised a specific concern that on January 14, 2009, MERC had nomination values of 21,361 (excluding third party nominations) and contracted firm capacity of 21,493 on a day when the HDDs were 86 or an average temperature of approximately -21°F. According to the Company's information, it appears that on this day MERC's territory experienced a temperature warmer than the Commission's peak-day standard and MERC would have had a reserve margin of approximately 0.61 percent. Thus, it appears that the Company may not have had sufficient firm demand volumes to meet the needs of its firm customers if a peak-day had occurred. The OES also noted that the Company used significantly more than anticipated on days during the past heating season that had temperatures warmer than the Commission's peak-day standard. The OES additionally noted its concern that the Company did not provide usage data that was specific to each of its PGA systems. Without the PGA system specific data, or at a minimum estimates, the OES stated it is unable to determine whether the Company's PGA system would have adequate firm entitlements on a Commission prescribed peak-day.

The OES also noted that in Docket No. G011/M-08-1328 (relating to the petition for a change in demand entitlement on MERC-PNG's NNG system) the Company was able to offer several options to serve firm load if needed next year. The OES stated it was not clear, however, whether such options would be available to serve MERC-PNG's Viking firm customers and recommended that the Company be prepared to indicate to the Commission whether these tools could be used to serve MERC-PNG's Viking customers. Finally, the OES noted that MERC-PNG's change in its method to estimate peak use by interruptible customers implies that MERC-PNG would be able to make greater use of interruptions of such customers if needed for reliability purposes.

The OES stated that although it believes that MERC-PNG's current design-day methodology has advantages over its previous estimate technique, the OES still has concerns about the design-day study's ability to estimate peak-day sendout and recommended that the Commission require the Company to provide additional evidence supporting the estimative power of its design-day study in its next demand entitlement filing. The OES also recommended that the Company be prepared to indicate to the Commission all of the tools that could be used to serve firm customers on MERC-PNG's Viking PGA system.

Response

For nomination purposes, MERC does not differentiate between volumes nominated for MERC-PNG on the Viking pipeline and MERC-NMU on the Viking pipeline. Instead, MERC looks at the total volume that flows on the Viking pipeline to MERC citygates. Additionally, MERC considers all volumes on the Viking pipeline, including third party volumes, because MERC is required to balance interruptible and transportation customers as well as firm customers. On the day in question there were total nominations of 26,041 MMBtu on the Viking

pipeline for MERC-PNG and MERC-NMU, made up of 21,361 nominated by MERC and 4,680 nominated by third parties. Total consumption for the day was 23,613 volumes. Because there are interruptible and transportation volumes included in the total consumption number that are not measured through daily telemetry, MERC cannot ascertain the exact volumes that were firm compared to interruptible and transportation volumes. In addition, Viking had issued a system wide Operational Flow Order (OFO) Warning starting effective January 14, 2009 which indicated a high probability of an OFO being issued if nominations were not sufficient to cover actual deliveries. Although Viking did not issue an OFO, MERC was conservative in its nominations due to the concern of incurring OFO penalties if one had been issued. OFO penalties on Viking are equivalent to three (3) times the midpoint price for Emerson, Viking GL published in the Daily price survey in Platts Gas Daily for the flow day on which the OFO is issued after an allowable variance (2%). The daily midpoint price for Emerson, Viking GL for January 14, 2009 was \$5.61, so if OFO penalties were incurred the price would have been \$16.83.

As on the MERC-PNG NNG system, the Company does have the capability to call transportation customers to their Maximum Daily Quantity (MDQ) on the Viking system as MERC deems necessary or to curtail interruptible customers for operational integrity. MERC also has the capability to purchase a delivered service at MERC citygate(s). Contract number 111866, referenced in MERC's Reply Comments in Docket No. G011/M-08-1328, is part of the Northern Natural Gas Northern Lights project and does not provide additional capacity on MERC-PNG's Viking system.

MERC-PNG is willing to discuss making reasonable changes to its design day forecasting process, including preparing and providing appropriate documentation related to the

“estimative power of its design day study” as requested by the OES. MERC-PNG requests clarification of the specific metrics or measures that would best describe “estimative power” including the preferred method of calculation and preferred format for the results (e.g. memo, table, graph, set of graphs). To that end, MERC agrees that it would be helpful to meet with the OES to further discuss the Company’s design-day methodology.

C. Daily Firm Capacity Selections

The OES noted that MERC has previously explained that it does not secure firm volumes specifically for joint-rate customers and that historically volumes associated with joint-rate customers have been so low that the capacity needed to serve these customers is historically low, the capacity needed to serve these customers has come out of the reserve margin. MERC has also noted that if it does not have the capability to provide a joint customer with both firm supply service and firm distribution service, then the customer’s request for contracted demand capacity would be denied. The OES recommended that the Commission require the Company to provide in its future demand entitlement filings, the individual PGA system specific number of joint customers (sales versus transportation) who elect to take firm service, and to identify the associated interstate pipeline contracts and units of contracted demand from the Company for each month during the 12-month period between filings.

Response

MERC agrees to provide the requested information starting with the Company’s November 2009 demand entitlement filings.

D. Peak-Day Weather Assumptions

In its Response Comments, the OES noted that the Fargo weather station is one component used to calculate the MERC-PNG Viking design day and that although the Fargo weather station's adjusted HDD value is greater than the Commission's prescribed peak-day weather standard, it is the only weather station that required the effects of wind to meet the Commission's standard. The OES stated that the effect of wind chill on heating load is contingent on many different factors such as building age and tightness of construction, and suggested that wind chill affected weather data may not produce the most accurate estimates of load on a Commission prescribed peak-day. The OES noted that Commission Staff discussed the use of adjusted HDDs to determine design-day estimates in the March 11, 2009 Briefing Papers in Docket No. G022/M-07-1142 for Greater Minnesota Gas. In that docket, Commission Staff expressed concern that wind chill does not necessarily affect heating load and that the use of adjusted HDDs may produce design-day throughputs that may not be sufficient to meet firm peak-day needs. The OES suggested that it would be useful to discuss MERC's design-day methodology in a meeting with MERC and that Commission Staff may wish to attend as well.

Response

The OES noted that MERC-PNG, and its predecessor Aquila Networks-PNG, have had Commission approval to use wind adjusted HDDs since the early 1990s. When completing regression analysis, it has been MERC's experience that there is a stronger correlation between Adjusted HDD (wind adjusted) and consumption compared to Unadjusted HDD (65 minus the average of the high/low temperature) and consumption. The stronger correlation leads MERC to believe that HDD adjusted for wind is a better indicator of customer consumption. MERC is

willing to further discuss this issue in a meeting with the OES and Commission Staff to discuss MERC's design-day methodology.

DATED this 17th day of September, 2009.

Respectfully submitted,

DORSEY & WHITNEY LLP

/s/ Michael J. Ahern

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Attorney for MERC

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

Sarah J. Kerbeshian, being first duly sworn on oath, deposes and states that on the 17th day of September 2009, the attached Response Comments of Minnesota Energy Resources Corporation were electronically filed with the Minnesota Public Utilities Commission and the Minnesota Department of Commerce. A copy of the filing was provided via United States first class mail to the remaining individuals on the attached service list.

/s/ Sarah J. Kerbeshian

Subscribed and sworn to before me
this 17th day of September, 2009.

/s/ Paula R. Bjorkman
Notary Public, State of Minnesota

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