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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. 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

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