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January 12, 2012

**VIA ELECTRONIC FILING**

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

Re: Minnesota Energy Resources Corporation's (MERC's) Demand Entitlement  
Petition for Approval of a Change in Demand Rates on its Great Lakes  
Transmission (GLGT) Purchased Gas Adjustment (PGA)  
  
Docket No. G011/M-11-1082  
  
MERC Reply Comments

Dear Dr. Haar:

On January 3, 2012, the Department of Commerce, Division of Energy Resources filed  
Comments recommending that the Minnesota Public Utilities Commission (Commission):

- accept the Company's peak-day analysis;
- accept the Company's proposed level of demand entitlement;
- allow the proposed recovery of associated demand costs effective November 1,  
2011; and
- require MERC to file its annual demand entitlement filing on August 1, on a  
going-forward basis.

MERC agrees with the Department's recommendations regarding its GLGT Demand  
Entitlement Petition.

The Department also requested that MERC provide additional information regarding the  
discovery that the Department issued to each regulated Minnesota gas utility in November 2011  
regarding the annual demand entitlement filing timeline and the reasonableness of acquiring  
capacity contracts for the upcoming heating season in excess of the amount estimated by the  
design-day analysis. Specifically, the Department requests that MERC provide a response to  
Interstate Power and Light's (IPL's) proposed procedure for demand entitlement filings.

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In its response to the Department's discovery requests, IPL proposed that the demand entitlement filing be moved up to July 1 each year with a follow-up final filing due on November 1. MERC responds that it will not be able to comply with an initial deadline of July 1. MERC is currently working to ensure that its regression and peak-day analyses are completed by July 1 to comply with the Department's recommended initial filing date of August 1. MERC is unable to comply with the July 1 deadline IPL proposes.

Regarding additional and reserve capacity, IPL pointed out that it is important to hold approximately five percent reserve margin to ensure reliability for customers because of forecasting variances. MERC does not have daily reads for all customer classes and agrees that a five percent reserve margin is necessary and reasonable.

Regarding phased in capacity and excess capacity costs, MERC utilizes the capacity release market to address excess capacity. IPL reports that it primarily relies on temporary non-recallable capacity releases to alleviate the issue of excess capacity. MERC could explore the use of non-recallable capacity releases, but it would only do so for volumes in excess of the positive five percent reserve.

In conclusion, MERC agrees with the Department's recommendations to approve MERC's GLGT Demand Entitlement Petition. Additionally, MERC is willing to further discuss with the Department the proposed changes in procedure to the demand entitlement filings.

Please feel free to contact me at (612) 340-2881 if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA            )  
  ) ss  
COUNTY OF HENNEPIN         )

Amber S. Lee hereby certifies that on the 11th day of January, 2012, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the Petition 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.

/s/ Amber S. Lee  
Amber S. Lee

Subscribed and sworn to before me  
this 11th day of January, 2012.

/s/ Paula Bjorkman  
Notary Public, State of Minnesota

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