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July 13, 2015

VIA ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: Minnesota Energy Resources Corporation 2014 Decoupling Evaluation Report
Reply Comments
Docket No. G-007,011/GR-10-977

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (MERC) submits these Reply Comments in response to the Comments filed by the Department of Commerce, Division of Energy Resources (the Department) on July 1, 2015. MERC appreciates the Department's review and comments.

The Department, in its comments, recommended that the Commission allow MERC to continue assessing its decoupling adjustment and approve MERC's annual decoupling adjustment. The Department also requested that MERC provide additional information in reply comments and in future filings. MERC responds to each of the Department's specific requests below.

First, the Department recommends that MERC provide additional discussion on any impact of the unbilled sales in reply comments. At a high level, MERC's unbilled process performs a calculation of the daily gas usage for each grouping of customers by rate code, based on the actual billing data from the most recent billing cycle prior to the end of the month. The daily usage amounts are then applied to the number of days from the billing cycle date to the end of the month to calculate unbilled sales. The current month unbilled sales calculation is posted to MERC's general ledger. MERC also reverses the previous month's unbilled sales entry, as those sales are no longer estimates and captured in MERC's actual billing data. The calendar month sales recorded for a month represent the current month's billed sales, plus the current month unbilled sales, less the prior month's unbilled sale. Negative net calendar month sales can occur when we come out of the cold winter months into the warmer spring and summer months. The reversal of the previous month's unbilled sales, which was calculated on higher use per customer because of the colder temperatures, can be greater than the sum of the current month billed sales plus the current month unbilled sales. The fact that these negative sales show a reduced average use per customer and therefore, on a stand-alone basis would create a revenue surcharge to customers, does not harm customers as these negative sales (created by a higher unbilled credit) are effectively reversed in the following months as the unbilled process trues-up on a month to month basis.

In short, MERC's unbilled sales process does not impact the Revenue Decoupling Mechanism (RDM) factor in any way. The sales and revenues from any individual month are irrelevant because the RDM is calculated on an annualized basis. MERC is hopeful that the new customer information system will refine the unbilled process and alleviate the negative sales issue, but the current process does not impact the RDM methodology.

Second, the Department recommends that MERC be required to file a decoupling evaluation for 2015 next year, and extend the decoupling pilot until such time as the Commission makes a determination as to its permanence. MERC agrees with the Department that it will file a decoupling evaluation plan for 2015, and welcomes the Department's recommendation to extend the decoupling pilot until such time the Commission can make a determination to MERC's performance.

Third, the Department requests that MERC provide any corrections needed for the non-CIP-exempt retail sales show in Table 2 of the Department's Comments. The data included in Table 2 is accurate and reflects the weather-normalized retail sales made to non-CIP-exempt customers. MERC uses this metric in all of its CIP filings and agrees with the Department that the inclusion of the CIP-applicable retail sales informs this decoupling analysis.

Fourth, the Department recommends that MERC propose to extend revenue decoupling to all of its customer classes in its next rate case or explain why including these customers is not in the public interest. MERC will gladly address this topic in its next rate case.

Finally, in its Comments, the Department notes that CenterPoint Energy's newly approved full decoupling mechanism has no cap on refunds, and that the Commission may want to consider a similar feature for any future MERC decoupling mechanisms. MERC is open to removing the cap as long as the removal is symmetrical (i.e., the cap is removed with respect to both refunds and surcharges) and any change is prospective only for future years. Specifically for planning purposes, MERC requests that any change to the cap not be effective before January 1, 2016.

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

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 13th day of July, 2015, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of MERC's Reply Commnets 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.

/s/ Kristin M. Stastny
Kristin M. Stastny

Subscribed and sworn to before me
this 13th day of July, 2015.

/s/ Alice Jaworski
Notary Public, State of Minnesota

[illegible]

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