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August 12, 2019

VIA ELECTRONIC FILING

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

Re: Reply Comments of Minnesota Energy Resources Corporation

In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a Change in Demand Entitlement for its NNG System, Docket No. G011/M-18-526

Dear Mr. Wolf:

On August 1, 2018, Minnesota Energy Resources Corporation ("MERC" or the "Company") filed a Petition with the Minnesota Public Utilities Commission (the "Commission") for Change in Demand Entitlement for the MERC-NNG purchased gas adjustment ("PGA") area effective November 1, 2018. MERC submitted an update to its August 1, 2018 Demand Entitlement filing on November 1, 2018 and implemented the proposed change in rates effective November 1, 2018.

The Department submitted initial comments on MERC's Demand Entitlement Petition on December 31, 2018, recommending that the Minnesota Public Utilities Commission accept MERC's proposed levels of demand entitlement and permit the Company to recover the associated costs through the monthly PGA effective November 1, 2018, and requesting that MERC provide additional information in Reply Comments. MERC submitted Reply Comments providing the additional information as requested by the Department on January 10, 2019. On May 21, 2019, the Department filed Response Comments continuing to recommend that the Commission accept MERC's proposed level of demand entitlement and allow the Company to recover associated costs through the monthly PGA effective November 1, 2018.

Subsequently, Commission staff identified an error in MERC's treatment of Rochester capacity costs as reflected in the 2018-2019 Demand Entitlement schedules and monthly PGA as implemented November 1, 2018. In particular, in its May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895, the Commission approved recovery of the costs of the Northern Natural Gas ("NNG") interstate pipeline system upgrades from both firm and interruptible sales customers through the commodity portion of the purchased-gas adjustment.¹ However, MERC incorrectly included the additional Rochester capacity costs for recovery through the demand portion of the PGA, consistent with how other capacity costs are recovered. As a result, MERC's November 1, 2018 through June 30, 2019 demand costs were overstated and the corresponding commodity costs were understated.

¹ *In the Matter of a Petition by Minnesota Energy Resources Corporation for Evaluation and Approval of Rider Recovery for its Rochester Natural Gas Extension Project*, Docket No. G011/M-15-895, ORDER APPROVING ROCHESTER PROJECT AND GRANTING RIDER RECOVERY WITH CONDITIONS at 14-15 (May 5, 2017).

MERC submitted a proposal and request for rule variances to correct for the error over six months through the PGA on July 3, 2019.

On August 1, the Department filed Comments on MERC's proposal, recommending that the Commission deny MERC's requested variances, disallow MERC to recover the under-recovered amounts from interruptible and joint customers, and require the Company to refund firm customers with interest via individual bill refunds rather than through adjustments to the PGA.² MERC submits these Reply Comments in response to the Department's August 1, 2019, Comments and the Commission's July 9, 2019, Notice of Comment Period.

In its Comments, the Department concludes that MERC's proposal to correct the Rochester capacity assignment error going forward is reasonable. With respect to the amounts that had been billed November 1, 2018 through June 30, 2019, however, the Department takes the position that (1) Minn. R. 7825.2920, subp. 2 applies;³ (2) Minn. R. 7825.2920, subp. 2 requires the refund amounts to be by check or credit with interest; (3) Minn. R. 7825.2920, subp. 2 *prohibits* surcharges to collect the under-recovered amounts from interruptible and joint service customers; and (4) granting a variance to Minn. R. 7825.2920 "would adversely impact the public interest by increasing the time needed to fully refund firm ratepayers, and ...will conflict with the requirements of Minnesota Rules, part 7825.2920, subp. 2."⁴

The Department's interpretation of the requirements of Minn. R. 7825.2920 are contrary to the plain language of the rule as well as prior Department recommendations and Commission orders. Further, the Department's justification for denial of MERC's requested variances is unreasonably circular—that varying the rule would conflict with the requirements of the rule is not a basis to deny the requested variance. If MERC's proposal complied with the rule, it would not require a variance in the first instance.

Ultimately, the Department's recommendation that MERC be disallowed recovery of a portion of the Rochester capacity costs is unreasonable, as the costs at issue have already been found by the Commission to be reasonable, prudent, and necessary to provide natural gas service to MERC's customers. The error in recovering those costs through the demand portion of the PGA rather than through commodity does not change that conclusion. MERC's requested variances satisfy each of the requirements under Minn. R. 7829.3200—enforcement of the rule would impose an excessive

² In particular, the Department recommended that the Commission (1) accept MERC's proposed level of demand entitlement for its NNG PGA; (2) allow MERC to recover associated demand costs through the monthly PGA effective November 1, 2018; (3) determine that the Rochester demand error is an error in the automatic adjustment calculation and therefore governed by Minn. R. 7825.2920, subp. 2, which does not allow for surcharges to collect under-recovered amounts; and (4) require MERC to calculate interest at the prime rate on the amount of costs over-recovered from firm ratepayers and include this in its refund to those customers.

³ Notably, the Department also reaches the conclusion that Minn. R. 7820.4000, the Natural Gas Billing Error Rule, does not apply and therefore, that variance is required to that rule. While the Commission has found the need to vary the requirements of Minn. R. 7820.4000 in similar past circumstances, MERC has no preference regarding whether the Commission (1) concludes Minn. R. 7820.4000 is inapplicable to the specific circumstances here, or (2) concludes that MERC has satisfied the requirement to vary Minn. R. 7820.4000.

⁴ Department Comments at 9.

burden on MERC by denying the Company the opportunity to recover costs that have been acknowledged as reasonable, prudent, and necessary; granting the variance would not adversely affect the public interest since the costs at issue are reasonable, prudent, and necessary, and gas costs are a direct flow-through to customers, upon which MERC earns no return, but should reasonably be permitted the opportunity to recover its actual costs; and granting the variance does not conflict with standards imposed by law but rather is consistent with prior Commission decisions. While MERC has proposed to correct for the over and under-recoveries through the PGA over six months to closely track with the 8-month period during which the costs were incorrectly passed through the demand portion of the PGA, if the Commission concludes a shorter or longer period is more appropriate to refund and collect the costs that had been incorrectly billed for the period November 1, 2018-June 30, 2019, MERC would not oppose such adjustment. The Company believes the Commission has discretion to determine an appropriate recovery and refund period to adjust for the over- and under-collections.

Costs Are Reasonable, Necessary, and Prudent

The Rochester capacity costs at issue are reasonable and prudent interstate pipeline capacity costs that are necessary to serve MERC's Minnesota natural gas customers. The Commission has already found the specific costs that are at issue here to be reasonable, prudent, and necessary, in its May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions:

The Rochester Project is reasonable and prudent for a number of other reasons. A major factor is the unique circumstances of the Rochester service area: there is no available existing capacity on the NNG system to serve Rochester, and MERC is effectively a captive customer of NNG there. Nonetheless, MERC was able to bring other pipeline companies to the table by issuing an RFP for 100,000 Dth/day of capacity, forcing NNG to offer a competitive bid.

The Commission also finds the Project reasonable because of the many beneficial terms of the Precedent Agreement. These include, among others, fixed rates for the entire 100,000 Dth Rochester entitlement for up to 30 years, firm growth capacity rights to other MERC markets, and the ability to divert up to 20 percent of the Rochester entitlement to serve its other markets.⁵

Under Minn. R. 7825.2390-2920, gas commodity and capacity costs are passed through directly to customers without mark-up. As reflected in Minn. R. 7825.2390, "The purpose of parts 7825.2390 to 7825.2920 is to enable regulated gas and electric utilities to adjust rates to reflect changes in the cost of energy delivered to customers from those costs authorized by the commission in the utility's most recent general rate case."

⁵ *In the Matter of a Petition by Minnesota Energy Resources Corporation for Evaluation and Approval of Rider Recovery for Its Rochester Natural Gas Extension Project*, Docket No. G011/M-15-895, ORDER APPROVING ROCHESTER PROJECT AND GRANTING RIDER RECOVERY WITH CONDITIONS at 9 (May 5, 2017).

The Department's conclusion that MERC should not be permitted to recover \$423,646 of its reasonable and prudently incurred capacity costs associated with the Commission-approved Rochester expansion project is unsupported.

MERC Has Satisfied the Requirements for a Variance

The Department focuses its comments primarily on the specific requirements and applicability of Minn. R. 7825.2920, subp. 2 and Minn. R. 7820.4000, arguing that Minn. R. 7820.4000, the natural gas billing errors rule, is inapplicable to the circumstances presented, and that Minn. R. 7825.2920, subp. 2 prohibits the correction the Company has proposed to account for the over- and under-recovered costs.

Because MERC meets all of the requirements for a variance under Minn. R. 7829.3200, there is no need to address the Department's arguments with respect to the requirements of the rules to be varied.⁶ Minn. R. 7829.3200 provides that the Commission shall grant a variance to its rules when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with standards imposed by law.

Each of these requirements is clearly met under the circumstances.

A. Excessive Burden

First, enforcement of the applicable rules would impose an excessive burden on MERC because issuing individual bill credits and additional bill charges would be administratively difficult. In its Comments, the Department asserts that MERC "has not provided information substantiating that a line item credit to firm ratepayers is administratively burdensome."⁷

MERC responds that the process to calculate credits and charges for each individual customer is not automated but would require a calculation for each customer and each impacted bill, adjusting for any bill changes or corrections. That process would require significant information technology resources to calculate each customer's credit or charges based on actual billed amounts, to review the calculations, and to test and process the actual bill charges and credits. Because these calculations would have to be performed for over 200,000 sales customers, for eight individual monthly bills each, MERC estimates that at a minimum, it would take hundreds of hours to complete the individual customer credit and charge calculations.

Further, as discussed above, the Rochester capacity costs at issue are reasonable and necessary costs to provide natural gas service to MERC's customers. Interpreting Minn. R. 7825.2920, subp.

⁶ Nevertheless, MERC responds to the Department's analysis regarding Minn. R. 7825.2920, subp. 2 below.

⁷ Department Comments at 10.

2 to deny the Company recovery of a material amount of costs already found to be reasonable, necessary, and prudent, would be excessively burdensome.

MERC's proposal to correct both the over-collections and under-collections through the PGA—the same mechanism through which the contract costs were intended to flow in the first instance—would ensure that firm and interruptible sales customers are appropriately charged for the Rochester capacity costs, and would avoid the confusion and potential for errors associated with the calculation and application of credits and charges to individual accounts. Further, authorizing MERC to implement adjustments to account for the correction over six months will ensure that customers are appropriately charged and refunded within a reasonable timeframe. However, as discussed above, MERC would not oppose a shorter or longer refund and recovery periods if the Commission determines such period would be more reasonable and appropriate.

The Department recommends that “in the event the Commission concludes that a line item credit would be administratively burdensome, . . . the Commission [should] approve a variance to Minnesota Rules, part 7825.2920, subp. 2, and require MERC to provide refunds in full, plus interest at the prime rate, as a credit to the first monthly PGA after issuance of an order in this docket. Doing so would return the overcharge to ratepayers in a more expeditious manner than the Company's six-month proposal.”⁸ MERC would not object to a shorter adjustment period, though the Company believes the adjustments to account for the over-collections should be the same as the period for the under-collections. Further, including interest on the over-collections is reasonable provided interest is assessed on the under-collections as well. The Company was not inappropriately advantaged by the PGA classification error, the interruptible customers were.

B. Public Interest

The Department states that MERC's proposal would “adversely impact the public interest by increasing the time needed to fully refund firm ratepayers.”⁹ MERC proposed to refund and collect the over- and under-recovered amounts through the PGA over six months in order to largely correlate to the period the Rochester capacity costs had been incorrectly recovered through the demand portion of the PGA (i.e., November 1, 2018-June 30, 2019). Assuming the Commission acted on the proposal in October or November, the period of the PGA adjustments would largely track with the same winter months as the original collections. However, to the extent the Commission concludes a shorter period is more appropriate to refund and collect the costs that had been incorrectly billed for the period November 1, 2018-June 30, 2019, MERC would not oppose a shorter refund and recovery period than the 6 months the Company had proposed in its July 3, 2019, filing. The Company believes the Commission has discretion to determine an appropriate recovery and refund period to adjust for the over- and under-collections and would not oppose any shorter or longer adjustment period.

Granting the proposed variance requests would not adversely affect the public interest. The proposed correction will still ensure that all of MERC's sales customers (firm and interruptible) are accurately charged for actual and necessary capacity costs in accordance with the Commission's

⁸ Department Comments at 10.

⁹ Department Comments at 9.

decisions in Docket No. G011/M-15-895. As discussed above, the Department's assertion that the Company's proposal would adversely affect the public interest are unsupported.

C. Conflict with Standards

Finally, granting the requested variances would not conflict with standards imposed by law. MERC is not aware of any laws that would be violated by the Commission's approval of the requested variances and its proposal to address this error, nor has the Department identified any. Further, attesting to the reasonableness of the Company's request, the Commission has granted variances to the PGA and billing error rules to allow such adjustments in the past.¹⁰

The Department asserts that MERC's variance request should be denied because "it will conflict with the requirements of Minnesota Rules, part 7825.2920, subp. 2."¹¹ The Department's rationale is circular and illogical; effectively the Department is arguing that because the action proposed would be contrary to the rule to be varied, the variance should not be allowed. If MERC's proposal was consistent with the applicable rules, it would not require a variance in the first instance. And while the applicability of the rules discussed in MERC's July 3, 2019, filing are tenuous under the circumstances, MERC outlined its proposal for review and approval by the Commission in the interest of full transparency and to ensure interested stakeholders would have an opportunity to evaluate that proposal. Minn. R. 7829.3200 provides that "the commission *shall grant a variance* to its rules when it determines" that each of the requirements discussed above are met. MERC has clearly met each of the requirements of Minn. R. 7829.3200, subp. 1 and should be granted the requested variance.

With respect to the Department's position that "the Billing Errors Rule is not applicable in this instance and therefore, no rule variance to this rule part is needed," MERC agrees that if the Commission believes the Natural Gas Billing Error Rule is not applicable to this situation, it does not need to grant a variance to that rule. MERC notes, however, that the Commission has previously concluded that similar PGA allocation and assignment errors required a variance from Minn. R. 7820.4000.¹² Regardless of whether the Commission believes Minn. R. 7829.4000 is applicable,

¹⁰ For example, in Docket Nos. G999/AA-14-580, G011/AA-14-754 and G011/AA-14-755, MERC requested and was granted variances to address two prior-period errors that were identified. *In the Matter of the Review of the 2013-2014 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment True-up Filings*, Docket No. G999/AA-14-580, ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS at 4-6 (Aug. 24, 2015) (Order also filed in Docket Nos. G011/AA-14-754 and G011/AA-14-755); *In the Matter of the Review of 2012-2013 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment True-Up Filings*, Docket No. G999/AA-13-600, ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS at 5, 6 (Aug. 11, 2014)

¹¹ Department Comments at 9.

¹² *In the Matter of the Review of 2012-2013 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment True-Up Filings*, Docket No. G999/AA-13-600, ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS at 5, 6 (Aug. 11, 2014) (noting that "At the hearing, the Department also agreed that a variance to Minn. R. 7825.2700, subp. 7 and Minn. R. 7820.4000 were appropriate"). In its Comments, the Department attempts to distinguish the facts here from past Commission decisions varying Minn. R. 7820.4000, apparently to support its position that

MERC has satisfied the requirements for variances to allow for correction to the over- and under-recoveries through the PGA mechanism.

Non-compliance with the rule to be varied is not a basis to deny a variance request. Such an interpretation of Minn. R. 7829.3200 is unreasonable and would render that rule meaningless. It is unclear how the Commission could ever grant a variance if compliance with the underlying rule to be varied was a condition precedent to approval.

Applicable Rules Do Not Prohibit Recovery of Under-Collected Amounts

Although the Company believes it has satisfied each of the requirements for a variance in this case, the Department's conclusion that Minn. R. 7825.2920, subp. 2 "does not allow for surcharges due to a calculation error – only refunds,"¹³ is also unsupported by the language of the rule and inconsistent with prior Department recommendations and Commission decisions. Specifically, Minn. R. 7825.2920, subp. 2 provides:

Errors made in adjustment must be refunded by check or credits to bills to the consumer in an amount not to exceed the amount of the error plus interest computed at the prime rate upon the order of the commission if (1) the order is served within 90 days after the receipt of the filing defined in part 7825.2900 or 7825.2910 or at the end of the next major rate proceeding, whichever is later, and (2) the amount of the error is greater than five percent of the corrected adjustment charge.

This rule, by its plain terms, does not prohibit the collection of under-recovered amounts. The rule only addresses over-charges, how they might be calculated (i.e., with or without interest), and how to determine the materiality of an error (e.g., "greater than five percent..."). The fact that the rule expressly addresses the Commission's authority with respect to the mechanism by which refunds may be provided cannot reasonably be read to disallow the recovery of under-recovered amounts. *Nothing in the plain language of Minn. R. 7825.2920, subp. 2, or any other applicable rule, prohibits the recovery of undercharged amounts under the circumstances here.*¹⁴

Contrary to their position in this request, the Department has previously recognized that Minn. R. 7825.2920, subp. 2 allows for the recovery of under-recovered amounts in conjunction with the return of over-collected amounts. For example, in Docket No. G999/AA-13-600, in the context of a PGA allocation error, the Department recommended "that MERC's proposal to correct its error should be based on Minn. R. 7825.2920, subp. 2 and accordingly, recommended that the Commission [1] require that for MERC-Con's classes that were undercharged, MERC adjust the September 1, 2014 true-up balance in a separate line item to the commodity cost of gas; and [2]

MERC should be prohibited from recovering the under-recovered costs from interruptible and joint service customers. Such reading of Minn. R. 7820.4000 and 7825.2920 is unreasonable and unsupported.

¹³ Department Comments at 8.

¹⁴ Further, as discussed above and in MERC's July 3, 2019, filing, MERC meets all of the requirements for a variance under Minn. R. 7829.3200, and therefore, the Commission need not even address the requirements of the rules to be varied.

require that for MERC-NNG's classes that were over charged MERC make refunds by check or credits to bills to ratepayers."¹⁵ Ultimately, in that case, the Commission grant[ed] a variance to Minn. R. 7825.2920, subp. 2, to allow MERC to adjust the September 1, 2014 true-up balances to account for both the over-charge and under-charge amounts.¹⁶ The position that the Department has now taken that Minn. R. 7825.2920, subp. 2 prohibits surcharges and only allows for refunds, effectively denying the utility recovery for a portion of its gas costs, is inconsistent with prior Department interpretations and Commission decisions.¹⁷ Such interpretation is also unreasonable and unsupported by the language and policy of the PGA rules, which allow gas costs such as those at issue here related to the Rochester interstate capacity as a pass through to customers.

A Variance to Minn. R. 7825.2920, Subp. 2 Is Arguably Unnecessary

As quoted above, Minn. R. 7825.2920, subp. 2, authorizes the Commission to order an appropriate refund for errors made in a utility's automatic adjustment if two conditions are met. Because neither of the two conditions have been met, a variance to that rule is arguably unnecessary. Nevertheless, the Company meets the requirements for variances to implement corrections for the over- and under-recoveries related to the Rochester capacity cost assignment.

First, the order requiring the refund must be served within 90 days after the receipt of the filing or at the end of the next major rate proceeding, whichever is later. In this case, that condition has not been met. MERC filed its initial petition for change in demand entitlements on August 1, 2018, under Minn. R. 7825.2910, subp. 2. To date, the Commission has not issued an order on that filing (i.e., the order has not been served within 90 days of receipt of the filing). In the period since MERC's demand entitlement petition was filed, however, the Commission did issue its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-17-563 on December 26, 2018, in MERC's general rate case proceeding. Thus, the Commission did not issue an order to require refunds by the end of the major rate proceeding that was pending at the time the Demand Entitlement petition was filed.

The second condition, that the amount of the error is greater than five percent of the corrected adjustment charge, is also not met. Firm service customers will be impacted by both the resulting reduction to the demand portion of the PGA and the increase to the commodity portion while interruptible customers will only be impacted by the change in the commodity portion of the PGA.¹⁸

¹⁵ *In the Matter of the Review of the 2012-2013 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment True-up Filings*, Docket No. G999/AA-13-600, Department Additional Response Comments at 2 (May 30, 2014).

¹⁶ *In the Matter of the Review of the 2012-2013 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment True-up Filings*, Docket No. G999/AA-13-600, ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS at 7 (Aug. 11, 2014).

¹⁷ Similarly, in Docket No. G999/AA-14-580, the Department recommended that the Commission vary Minn. R. 7825.2920, subp. 2 to allow the utility to adjust the true-up balance both for customers who were over-charged and customers who were undercharged. Department Supplemental Response Comments at 7 (July 16, 2015).

¹⁸ The Department based its calculation solely on the reduction to the demand portion of the PGA, without accounting for the corresponding commodity adjustment. This does not accurately reflect the impact of the correction. The Rochester capacity costs are not being removed; rather, they're being recovered through the commodity portion of the PGA in accordance with the Commission's Order in Docket No. G011/M-15-895.

The percentage change with respect to both the firm service customers and interruptible customers is less than the five percent threshold set forth in Minn. R. 7825.2920, subp. 2.

| | |
|---|-----------|
| PGA Adjustment for Firm Service – Originally Filed | \$0.48838 |
| PGA Adjustment for Firm Service – Corrected | \$0.48634 |
| % Change in Adjustment Charge | -0.42% |
| PGA Adjustment for Interruptible Service – Originally Filed | \$0.37371 |
| PGA Adjustment for Interruptible Service – Corrected | \$0.39141 |
| % Change in Adjustment Charge | 4.74% |

MERC respectfully requests that the Commission grant its request to vary the requirements of all applicable rules as necessary to allow MERC to correct for the over- and under-charge amounts through monthly PGA.

Updated Rate Impact Calculations

Finally, the Department notes in its Comments that it reviewed Attachment B to MERC's Correction Filing and notes that the demand costs for the Company's Small and Large Volume Firm rate classes are incorrectly reported. The Department included revised rate calculations in Attachment A-1 to its Comments. MERC responds that the Department is correct with respect to the Small and Large Volume Firm demand rate, which should be reflected as \$28.101 rather than \$2.8101. However, the Department's other changes do not appear to be accurate.

As noted in Attachment B to MERC's July 3, 2019, filing, MERC's rate impact analysis intentionally excludes the Annual Cost Adjustment ("ACA") factor.¹⁹ The Department added in the ACA factor to the non-residential rates in the October, 2018 PGA column of its Attachment A-1, causing the comparison to the corrected November, 2018 PGA to be misstated. In addition, the Department's Attachment A-1 includes a revised commodity cost of \$3.4787 for the proposed November, 2018 PGA, which is not accurate. MERC's update to include the Rochester capacity costs for recovery through the commodity portion of the PGA results in a commodity rate of \$3.9141. Even if the Department were to exclude the reasonable and prudently incurred Rochester capacity costs from the commodity portion of the proposed PGA, the resulting commodity rate should have been \$3.7371, not \$3.4787. MERC includes an updated Attachment 4 reflecting the correction to the cost comparison as Attachment A to these Reply Comments. Based on these updates, MERC's demand entitlement proposal results in the following annual demand cost impacts:

- annual bill increase of \$1.11 related to demand costs, or 1.35 percent, for the average General Service customer consuming 88 Dth annually;
- annual bill increase of \$9.46 related to demand costs, or 1.35 percent for the average Small Volume Firm customer consuming 25 Dth annually of firm gas;
- annual bill increase of \$28.37 related to demand costs, or 1.35 percent, for the average Large Volume Firm customer consuming 75 Dth annually of firm gas;
- annual bill increase of \$2,284.89 related to Rochester contract costs for the average Small Volume Interruptible customer consuming 5,110 Dth annually; and

¹⁹ See MERC Reply Comments at 3 (Jan. 10, 2019).

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- annual bill increase of \$7,031.71 related to Rochester contract costs for the average Large Volume Interruptible customer consuming 16,150 Dth annually.

Please contact me at (414) 221-2374 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink, reading "Mary L. Wolter". The signature is written in a cursive, flowing style.

Mary L. Wolter
Director – Gas Regulatory Planning & Policy

Enclosure
cc: Service List

| All costs in \$/Dth | Base Cost of Gas G011/MR-17-564 Jan 1, 2018 | Demand Charge Oct 1, 2017 | Demand Charge Nov 1, 2017 | Most Recent PGA Oct 1, 2018 | Proposed Effective Nov 1, 2018 | Result of Proposed Change | | | |
|---|---|------------------------------|------------------------------|-----------------------------------|-----------------------------------|----------------------------|---------------------------------------|------------------------|-------------------------|
| | | | | | | Change from Last Rate Case | Change from Nov 1, 2017 Demand Filing | Change from Last PGA % | Change from Last PGA \$ |
| 1) General Service Residential: Avg. Annual Use: | | 88 | | | | | | | |
| | | | | Dth | | | | | |
| Commodity Cost | \$3,740.6 | \$3,225.7 | \$3,020.1 | \$3,478.7 | \$3,914.1 | \$0.1735 | \$0.8940 | 12.52% | \$0.4354 |
| Demand Cost | \$0.9361 | \$0.9288 | \$0.9328 | \$0.9367 | \$0.9493 | \$0.0132 | \$0.0165 | 1.35% | \$0.0121 |
| Commodity Margin | \$2,628.4 | \$2,411.6 | \$2,411.6 | \$2,572.7 | \$2,572.7 | (\$0.0557) | \$0.1611 | 0.00% | \$0.0000 |
| Total Cost of Gas | \$7,305.1 | \$6,566.1 | \$6,364.5 | \$6,988.1 | \$7,436.1 | \$0.1310 | \$1.0716 | 6.41% | \$0.4480 |
| Avg Annual Cost | \$842.85 | \$577.82 | \$550.08 | \$814.96 | \$854.38 | \$11.53 | \$94.30 | 6.41% | \$39.42 |
| Effect of proposed commodity change on average annual bills: | | | | | | | | | \$38.32 |
| Effect of proposed demand change on average annual bills: | | | | | | | | | \$1.11 |
| 2) Small Vol. Interruptible: Avg. Annual Use: | | 5,110 | | | | | | | |
| | | | | Dth | | | | | |
| Commodity Cost | \$3,740.6 | \$3,225.7 | \$3,020.1 | \$3,478.7 | \$3,914.1 | \$0.1735 | \$0.8940 | 12.52% | \$0.4354 |
| Demand Cost | | | | | | | | | |
| Commodity Margin | \$1,061.6 | \$0.9740 | \$0.9740 | \$1,039.1 | \$1,039.1 | (\$0.0225) | \$0.0651 | 0.00% | \$0.0000 |
| Total Cost of Gas | \$4,802.2 | \$4,199.7 | \$3,994.1 | \$4,517.8 | \$4,953.2 | \$0.1510 | \$0.9591 | 9.64% | \$0.4354 |
| Avg Annual Cost | \$24,539.24 | \$21,460.47 | \$20,409.85 | \$23,085.96 | \$25,310.85 | \$771.61 | \$4,901.00 | 9.64% | \$2,224.89 |
| Effect of proposed commodity change on average annual bills: | | | | | | | | | \$2,224.89 |
| Effect of proposed demand change on average annual bills: | | | | | | | | | \$0.00 |
| 3) Large Vol. Interruptible: Avg. Annual Use: | | 16,150 | | | | | | | |
| | | | | Dth | | | | | |
| Commodity Cost | \$3,740.6 | \$3,225.7 | \$3,020.1 | \$3,478.7 | \$3,914.1 | \$0.1735 | \$0.8940 | 12.52% | \$0.4354 |
| Demand Cost | | | | | | | | | |
| Commodity Margin | \$0.5808 | \$0.5329 | \$0.5329 | \$0.5685 | \$0.5685 | (\$0.0123) | \$0.0356 | 0.00% | \$0.0000 |
| Total Cost of Gas | \$4,321.4 | \$3,758.6 | \$3,553.0 | \$4,047.2 | \$4,482.6 | \$0.1612 | \$0.9296 | 10.76% | \$0.4354 |
| Avg Annual Cost | \$69,790.61 | \$60,701.39 | \$57,380.95 | \$66,362.28 | \$72,393.99 | \$2,603.38 | \$15,013.04 | 10.76% | \$7,031.71 |
| Effect of proposed commodity change on average annual bills: | | | | | | | | | \$7,031.71 |
| Effect of proposed demand change on average annual bills: | | | | | | | | | \$0.00 |
| 4) Small Vol. Firm: Avg. Annual Use: | | 5,110 | | | | | | | |
| | | 25 | | Dth | | | | | |
| Commodity Cost | \$3,740.6 | \$3,225.7 | \$3,020.1 | \$3,478.7 | \$3,914.1 | \$0.1735 | \$0.8940 | 12.52% | \$0.4354 |
| Demand Cost | \$28,083.0 | \$27,864.0 | \$27,984.0 | \$28,101.0 | \$28,479.2 | \$0.0000 | \$0.4952 | 1.35% | \$0.3782 |
| Commodity Margin | \$1,061.6 | \$0.9740 | \$0.9740 | \$1,039.1 | \$1,039.1 | (\$0.0225) | \$0.0651 | 0.00% | \$0.0000 |
| Demand Margin | \$3,269.7 | \$3,000.0 | \$3,000.0 | \$3,144.9 | \$3,144.9 | \$3,144.9 | \$0.1449 | 0.00% | \$0.0000 |
| Total Cost of Gas | \$4,802.2 | \$4,199.7 | \$3,994.1 | \$4,517.8 | \$4,953.2 | \$0.1510 | \$0.9591 | 9.64% | \$0.4354 |
| Total Demand Cost | \$31,352.7 | \$30,864.0 | \$30,984.0 | \$31,245.9 | \$31,624.1 | \$0.2714 | \$0.6401 | 1.21% | \$0.3782 |
| Avg Annual Cost | \$25,323.05 | \$22,232.07 | \$21,184.45 | \$23,867.11 | \$26,101.46 | \$778.40 | \$4,917.00 | 9.36% | \$2,234.35 |
| Effect of proposed commodity change on average annual bills: | | | | | | | | | \$2,224.89 |
| Effect of proposed demand change on average annual bills: | | | | | | | | | \$9.46 |
| 5) Large Vol. Firm: Avg. Annual Use: | | 16,150 | | | | | | | |
| | | 75 | | Dth | | | | | |
| Commodity Cost | \$3,740.6 | \$3,225.7 | \$3,020.1 | \$3,478.7 | \$3,914.1 | \$0.1735 | \$0.8940 | 12.52% | \$0.4354 |
| Demand Cost | \$28,083.0 | \$27,864.0 | \$27,984.0 | \$28,101.0 | \$28,479.2 | \$0.3962 | \$0.4952 | 1.35% | \$0.3782 |
| Commodity Margin | \$0.5808 | \$0.5329 | \$0.5329 | \$0.5685 | \$0.5685 | (\$0.0123) | \$0.0356 | 0.00% | \$0.0000 |
| Demand Margin | \$3,269.7 | \$3,000.0 | \$3,000.0 | \$3,144.9 | \$3,144.9 | \$0.0000 | \$0.1449 | 0.00% | \$0.0000 |
| Total Cost of Gas | \$4,321.4 | \$3,758.6 | \$3,553.0 | \$4,047.2 | \$4,482.6 | \$0.1612 | \$0.9296 | 10.76% | \$0.4354 |
| Total Demand Cost | \$31,352.7 | \$30,864.0 | \$30,984.0 | \$31,245.9 | \$31,624.1 | \$31,624.1 | \$0.6401 | 1.21% | \$0.3782 |
| Avg Annual Cost | \$72,142.06 | \$63,016.19 | \$59,704.75 | \$67,705.72 | \$74,766.80 | \$4,975.19 | \$15,081.05 | 10.43% | \$7,080.08 |
| Effect of proposed commodity change on average annual bills: | | | | | | | | | \$7,031.71 |
| Effect of proposed demand change on average annual bills: | | | | | | | | | \$28.37 |
| Note: Average Annual Average based on NNG Annual Automatic Adjustment Report in Docket No. E.G999/AA-17-493 | | | | | | | | | |
| Note: Rates do not include the ACA adjustment. | | | | | | | | | |

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

Docket No. G011/M-18-526

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 12th day of August, 2019, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Reply Comments 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 12th day of August, 2019.

/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_18-526_M-18-526 |
| Elizabeth | Brama | ebrama@briggs.com | Briggs and Morgan | 2200 IDS Center 80 South 8th Street Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_18-526_M-18-526 |
| 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_18-526_M-18-526 |
| Riley | Conlin | riley.conlin@stoel.com | Stoel Rives LLP | 33 S. 6th Street Suite 4200 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_18-526_M-18-526 |
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| Gregory | Jenner | greg.jenner@stoel.com | Stoel Rives LLP | 33 South Sixth Street Ste 4200 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_18-526_M-18-526 |

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| 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_18-526_M-18-526 |
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| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
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| Generic Notice | Residential Utilities Division | residential.utilities@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131 | Electronic Service | Yes | OFF_SL_18-526_M-18-526 |
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| Eric | Swanson | eswanson@winthrop.com | Winthrop & Weinstine | 225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629 | Electronic Service | No | OFF_SL_18-526_M-18-526 |
| Casey | Whelan | cwhelan@kinectenergy.com | Kinect Energy Group | 605 Highway 169 N Ste 1200 Plymouth, MN 55441 | Electronic Service | No | OFF_SL_18-526_M-18-526 |
| 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_18-526_M-18-526 |
| | | | | | | | |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|------------|-----------|--------------------------------|--|--|--------------------|-------------------|------------------------|
| Mary | Wolter | mary.wolter@wecenergygroup.com | Minnesota Energy Resources Corporation (HOLDING) | 231 West Michigan St Milwaukee, WI 53203 | Electronic Service | No | OFF_SL_18-526_M-18-526 |