

August 20, 2012

**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 (MERC or Company) for Approval of an Affiliated Interest Agreement (AIA)  
Docket No. G007,011/AI-10-783  
MERC Reply Comments

Dear Dr. Haar:

MERC submits these Reply Comments in response to the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) filed in this matter on August 8, 2012.

As the Department notes, Section 4.4 of the AIA requires MERC to conduct a new cost study every third year on or before May 1 to determine the fair-market value of services provided between Regulated Parties and the at-cost price for services provided between a Regulated Party and a Non-Regulated Party covered by the Agreement. The study must be updated annually to cover changes made between cost studies.

The Department further noted that in approving the AIA, the Illinois Commerce Commission (ICC) and the Public Service Commission of Wisconsin (PSCW) required MERC to notify the Commissions or Commission staffs of the availability of the study and annual update, and, if requested, make the study and updates available for review at the Commission's offices. Section 4.4 of the AIA requires that the first new cost study shall pertain to the period ending December 31, 2011, and be due on or before May 1, 2012.

The Department recommended the Minnesota Public Utilities Commission (Commission) approve the AIA as approved by the ICC and PSCW, provided that the Commission requires MERC to:

- make available for study in the Commission offices the cost study and annual updates to the study, with the documents being granted trade-secret or another protected status, depending upon MERC requesting and demonstrating that access to the documents should be limited;

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- file the cost study covering the period ending December 31, 2011, within 30 days of the date of an Order approving the Agreement; and
- file a study with the Commission three years from the effective date of the Agreement providing information sufficient to enable the Commission to determine whether the Agreement should continue, be modified, or be discontinued.

MERC agrees with the Department's recommendations to make the cost study and annual updates available for review in the Commission's offices and to file a study with the Commission three years from the effective date of the Agreement so the Commission can determine whether the AIA should be continued or modified.

At this time, MERC and the Department are discussing the second recommendation that MERC file the cost study within 30 days of the Commission's Order approving the agreement. MERC notes that in Docket No. G007,011/AI-07-779 – MERC's Integrys Business Support (IBS) AIA – the Commission required MERC to make the market study and annual updates required by the IBS AIA available for review but the Commission did not require MERC to file or otherwise provide a copy of the study. Similarly, the ICC and the PSCW have not required MERC to file a copy of the study. Nonetheless, as MERC and the Department have discussed, if required MERC will request trade secret protection and file non-public and public copies of the study as the Commission directs.

Please 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         )

Amber S. Lee hereby certifies that on the 20th day of August, 2012, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the Reply Comments 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 20th day of August, 2012.

/s/ Sara Garcia  
Notary Public, State of Minnesota

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_10-783_AI-10-783
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Michael	Bradley	bradley@moss-barnett.com	Moss & Barnett	4800 Wells Fargo Ctr 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	OFF_SL_10-783_AI-10-783
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500  Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Richard	Haubensak	RICHARD.HAUBENSAK@CONSTELLATION.COM	Constellation New Energy Gas	Suite 200 12120 Port Grace Boulevard La Vista, NE 68128	Paper Service	No	OFF_SL_10-783_AI-10-783
Jack	Kegel		MMUA	Suite 400 3025 Harbor Lane North Plymouth, MN 554475142	Paper Service	No	OFF_SL_10-783_AI-10-783
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Brian	Meloy	brian.meloy@leonard.com	Leonard, Street & Deinard	150 S 5th St Ste 2300  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-783_AI-10-783
Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crouse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	No	OFF_SL_10-783_AI-10-783

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ann	Seha	seha.ann@dorsey.com	Dorsey & Whitney	Suite 1500 50 South Sixth Street Minneapolis, MN 554021498	Paper Service	No	OFF_SL_10-783_AI-10-783
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_10-783_AI-10-783
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW  Rochester, MN 55901	Paper Service	No	OFF_SL_10-783_AI-10-783