

September 10, 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 Supplemental Reply Comments

Dear Dr. Haar:

MERC submits these Supplemental Reply Comments in response to the Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) filed in this matter on August 31, 2012.

In Comments submitted August 8, 2012, in this matter, the Department recommended that the Minnesota Public Utilities Commission (Commission) require MERC to make available for review in the Commission offices the cost study and annual updates to the study. In Supplemental Comments the Department clarified this recommendation and also recommended Sections 4.2, 4.3, and 4.4 of the Affiliated Interest Agreement (Agreement) be modified to remove ambiguity as to how and where MERC is to file the annual internal audit report, the cost study and annual updates to the cost study. The Department's proposed modifications to the Agreement are set forth below.

First, the Department recommends that the following passage from Section 4.2 be amended as follows:

Each year by May 1, each of the Regulated Parties shall submit to the ~~person or department designated by its Commission or its Commission's staff in this docket:~~

Second, the Department recommends that the following sentence from Section 4.3 be amended as follows:

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The Regulated Parties shall submit a copy of the audit report to the ~~person or department designated by the Commission in this docket s or the Commissions' staffs~~ no later than July 1 of each audit year.

Finally, the Department recommends that the following sentence from Section 4.4 be amended as follows:

The Regulated Parties shall notify the person or department designated by ~~submit a copy of the cost study to the Commissions in this docket. Annual updates to the cost study shall also be submitted to the Commission by May 1 of each applicable year. or the Commissions' staffs of the availability of the study and annual update and, if requested, make such available for review at the Commission's offices.~~

With these modifications, the Department recommended the Commission approve the Agreement, provided the Commission require MERC to file in this docket:

- the annual internal audit report according to revised Section 4.3;
- the cost study covering the period ending December 31, 2011, within 30 days of the date of an Order approving the Agreement; and
- the annual updates to the cost study and subsequent cost studies according to revised Section 4.4.

MERC is amenable to the Department's recommendation to file the annual internal audit report, the cost study and the annual updates in this docket. MERC disagrees, however, with the Department's proposed modifications to Sections 4.2-4.4 of the Agreement. Modification of the Agreement will require MERC and its affiliates to reopen the proceedings in Illinois and Wisconsin or open new proceedings to seek approval of the modified Agreement in those jurisdictions. Considering that it has taken more than two years to receive such approval, MERC would like to avoid additional lengthy proceedings seeking re-approval. Additionally, the cost studies and updates include confidential and proprietary information, and the requirements for protecting such information in a docketed filing vary in Illinois and Wisconsin and are more burdensome than a commitment to make the information available to the Commissions and their staffs. MERC proposes in the alternative that the Commission include the specific filing requirements recommended by the Department in its Order in this matter. MERC agrees to file the documents in this docket as recommended by the Department and the Commission can ensure these requirements are made part of the record by including them in its Order.

Alternatively, MERC proposes that these filing specifications be included in a Minnesota-specific addendum. The Illinois Commerce Commission (ICC) and the Public Service Commission of Wisconsin (PSCW) did not require these filing processes so MERC sees no need to include these requirements in the body of the Agreement. Likewise, MERC's Michigan affiliates follow separate procedures with the Michigan Public Service Commission. While

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MERC and its affiliates would still need to seek approval of the Minnesota Addendum from the ICC and PSCW, such process could likely be streamlined in comparison to a proceeding in which the ICC and PSCW need to approve a modified Agreement.

In conclusion, MERC agrees with the Department's recommendations to file the annual internal audit reports, cost study and annual updates in this docket. MERC proposes that in lieu of the Department's proposed modifications to the Agreement, the Commission include these filing requirements in its Order in this matter. In the alternative, MERC requests these requirements be included in a Minnesota Addendum.

Please contact me at 612-340-2881 if you have any questions regarding this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

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