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October 1, 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)  
for Approval of an Affiliated Interest Agreement  
Docket No. G007,011/AI-10-783

Dear Dr. Haar:

MERC submits these Additional Supplemental Reply Comments in response to the Comments filed in this matter by the Minnesota Department of Commerce (Department) on September 18, 2012. In Supplemental Reply Comments filed on September 10, 2012, MERC agreed with the Department's recommendations regarding the filing requirements for the annual internal audit, cost study and annual updates to the Agreement and suggested that instead of modifying the Agreement, the Minnesota Public Utilities Commission (Commission) include the recommended filing requirements in its Order in this matter. The Department agreed with MERC's suggestions in its September 18, 2012, Comments.

MERC submits these additional comments to provide information regarding the Department's specific recommendation that the Commission require MERC to file the initial cost study pertaining to the period ending December 31, 2011, within 30 days of the date of the Order approving the Agreement. See bullet point 3, Department's September 18, 2012, Comments, page 2.

The Affiliated Interest Agreement proposed for approval in this matter will govern the provision of inter-company services provided by and among affiliates within the Integrys holding company system other than services provided by Integrys Business Support, LLC (IBS) – the centralized service company within the Integrys holding company system. This Agreement will supersede the affiliated interest agreement approved by the Commission in Docket No. G007,011/AI-06-1052. Section 4.4 of the Agreement provides:

Every third year, on or before May 1, the Parties shall conduct a new study of the cost of Services provided hereunder for the purpose of testing compliance with the provisions of this Agreement requiring charges at the fair market value and to analyze the market price of services provided. The study shall include Services

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provided between a Regulated Party and a Non-Regulated Party at cost. The study shall be updated at least annually. The Parties shall notify the person or department designated by the Commissions 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. The first such new study shall pertain to the period ending December 31, 2011, and shall be due on or before May 1, 2012.

MERC initially filed the petition for approval of the Agreement in this matter on July 12, 2010. In its Reply Comments submitted on September 17, 2010, MERC noted the Agreement was undergoing regulatory review and approval in Wisconsin and Illinois and MERC therefore requested the Commission defer review and approval of the Agreement until the Illinois Commerce Commission (ICC) and the Public Service Commission of Wisconsin (PSCW) approved the Agreement. The ICC approved the Agreement (with modifications) on December 15, 2010, and the PSCW approved the Agreement as modified by the ICC on April 3, 2012. On April 25, 2012, MERC requested the Commission resume its review of its petition.

As set forth above, the Agreement provides for the completion of the first cost study on May 1, 2012. However, until Integrys obtains all required regulatory approvals, the Agreement cannot take effect. Due to the lengthy approval processes necessary to obtain approval in multiple jurisdictions, the Agreement is not yet in effect and that cost study has not yet been completed. At this time Integrys plans to complete the non-IBS cost study in May 2015 based on 2014 data. That timeframe will allow Integrys to coordinate the non-IBS cost study with the IBS cost study required by the IBS Affiliated Interest Agreement approved in Docket No. G007,011/AI-07-779 (IBS AIA docket). Integrys completed the IBS cost study in May 2012. To assist the Commission and the Department in their review of this petition, MERC has filed the IBS cost study in the IBS AIA docket. The non-IBS cost study will generally follow the same format and framework as the IBS cost study; the non-IBS cost study will be adjusted as needed to include relevant job categories.

In conclusion, MERC takes this opportunity to clarify that it agrees with the Department's reporting recommendations, and it will file the initial cost study in this docket upon its completion in 2015.

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 1st day of October, 2012, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the Additional Supplemental 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 1st day of October, 2012.

/s/ Sara Garcia  
Notary Public, State of Minnesota

Status Report  
Docket 10-0408

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Docket 10-0408

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