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January 3, 2013

VIA ELECTRONIC FILING

Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

Re: *In the Matter of the Application of Minnesota Energy Resources Corporation (MERC's) Petition for Approval of an Affiliated Interest Agreement*

PUC Docket No. G007,011/AI-10-783

Additional Reply Comments

Dear Dr. Haar:

Minnesota Energy Resources Corporation ("MERC") offers these comments in reply to the December 24, 2012, Supplemental Comments of the Department of Commerce, Division of Energy Resources ("the Department" or "the DER") on MERC's petition for approval of an Affiliated Interest Agreement ("AIA" or "Agreement").

MERC thanks the Department for their additional comments. MERC agrees with and accepts all of the conditions recommended by the Department as further supplemented by these comments.

By way of background, the proposed non-IBS AIA is effectively a streamlined version of the current non-IBS AIA as the scope of services contemplated by the proposed non-IBS AIA is narrower. The current AIA is broader in nature because it predated the creation of IBS and IBS' role as the centralized service provider. Importantly, however, the cost calculation and allocation methodologies remain the same in the proposed non-IBS AIA as exist in the current non-IBS AIA.

In its November 7, 2012, Comments in this matter, the Department concluded it was appropriate for the Minnesota Public Utilities Commission ("Commission") to condition its approval of MERC's AIA petition with the requirement that MERC obtain approval of the non-IBS study prior to MERC's next rate case. Thus, according to the Department's recommendation, MERC would either need to wait to file its next rate case until it receives approval of the non-IBS study filed in 2015 or, if MERC intends to file its next rate case sooner, the Company would need to file its non-IBS study sooner.

In its December 24, 2012, Comments, the Department revised its recommendation as follows:

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MERC ~~shall~~ may obtain approval of the non-IBS cost study prior to or concurrent with MERC's next rate case; in any event, MERC bears the burden of showing in its next rate case that its proposed recovery of costs and revenues pertaining to non-IBS transactions is reasonable. Further, MERC must file its non-IBS study no later than May 1, 2015.

MERC agrees with the Department's revised recommendation, which eliminates the need for MERC to obtain approval of the non-IBS cost study prior to the filing of its next rate case.

MERC has had a subsequent conversation with Department staff, during which MERC agreed to initiate a filing to provide transaction detail, cost studies and market studies, as appropriate, to support the reasonableness of the non-IBS non-regulated AIA transactions for the calendar year 2012 (all of which occurred under the current non-IBS AIA, not the agreement proposed for approval in this docket). It is anticipated that this filing will be made within the second quarter of 2013, and in any event, this filing will be made before any new MERC rate case is filed. MERC will file this information to facilitate the Department's review of the reasonableness of the costs and revenues associated with the transactions under the proposed AIA, and it is unnecessary for MERC to obtain the Department's or Commission's approval of the cost study or the anticipated filing made later this year before MERC files its next rate case.

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

Sincerely yours,

/s/

Michael J. Ahern

cc: Service List

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Amber S. Lee hereby certifies that on the 3rd day of January, 2013, 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. 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 3rd day of January, 2013.

/s/ Paula Bjorkman
Notary Public, State of Minnesota

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