

May 12, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Sue 350
St. Paul, Minnesota 55101-2147

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/PA-14-664

Dear Mr. Wolf:

Attached are the Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A Request for Approval of the Merger Agreement between Integrys Energy Group, Inc. and Wisconsin Energy Corporation.

The petition was filed on August 6, 2014 by:

Amber S. Lee
Regulatory and Legislative Affairs, Manger
Minnesota Energy Resources Corporation
2665 145th Street West, Box 455
Rosemount, MN 55063-0455

The Department has modified the recommendations provided in its Comments dated April 20, 2015. The Department continues to recommend **approval of the petition with conditions** and is available to answer any questions the Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

**SUPPLEMENTAL COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

DOCKET No. G011/PA-14-664

I. INTRODUCTION

The Minnesota Department of Commerce (Department) respectfully submits these Supplemental Comments in response to the comments submitted by the Office of the Attorney General Anti-Trust and Utilities Division (OAG-AUD) on April 20, 2015 and the reply comments submitted by Minnesota Energy Resources Corporation (MERC or Applicant) on April 27, 2015.

In its comments filed on April 20, 2015, the Department recommended that the Commission add the following three conditions to the list of 30 proposed conditions the Department included in Attachment B to its April 20, 2015 filing:

1. The Commission will deny MERC recovery of increased financing costs due to any rating agency downgrades in any subsequent general rate proceeding for the first three years following the merger.
2. Any increased capital costs determined by the Commission to be related to downgrading or other credit degradation of the holding company and/or non-utility affiliates should be removed from the cost of capital for MERC.
3. Costs allocated or assigned from IBS, or its successor, cannot increase above the level approved in MERC's most recent general rate case (Docket E-011/GR-13-617) for rate-making purposes for the first three years after the Proposed Transaction is executed.

After reviewing the OAG-AUD's comments and the Company's reply comments, the Department modifies its recommendation regarding the three conditions listed above, but not to the thirty conditions included in Attachment B of its earlier comments.

II. DEPARTMENT ANALYSIS

A. OAG-RUD RECOMMENDATIONS

The OAG-AUD included 33 recommendations in its comments. One recommendation of particular interest to the Department is OAG-AUD recommendation #32 which states:

If MERC's cost of debt increases during the next three calendar years, Minnesota ratepayers will be held harmless from any rate impact unless MERC can demonstrate that its increased cost of debt was not caused by the proposed transaction.

The Department believes that this recommendation captures the intent of the Department's recommendations #1 and #2 included in its April 20, 2015 comments. Consequently, the Department supports OAG-AUD recommendation #32 and withdraws Department recommendations #1 and #2 above.

B. MERC REPLY COMMENTS

MERC noted in its reply comments that it opposed the Department's third recommendation. The Company explained that any new affiliated interest agreement between MERC and Wisconsin Energy Corporation (WEC) Business Services will require Commission approval and that the Department's concern regarding service costs could be addressed in that future proceeding. MERC also revisited its rationale that the Department and the Commission can address this issue in the Company's upcoming rate case.

The Department agrees with MERC's rationale and respectfully withdraws the third recommendation listed in its April 20, 2015 comments.

III. RECOMMENDATIONS

The Department recommends that the Commission approve MERC's petition with the thirty conditions listed in Attachment B of its April 20, 2015 comments. In addition, the Department recommends the following condition:

If MERC's cost of debt increases during the next three calendar years, Minnesota ratepayers will be held harmless from any rate impact unless MERC can demonstrate that its increased cost of debt was not caused by the proposed transaction.

This condition is identical to one proposed by the OAG-AUD in its April 20, 2015 comments as #32.

In total, the Department recommends that the Commission approve the petition with the thirty-one conditions it has identified.

/ja

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

MINNESOTA DEPARTMENT OF COMMERCE – SUPPLEMENTAL COMMENTS

Docket Nos. **G011/PA-14-664**

Dated this **12th** day of **May, 2015**.

/s/Linda Chavez

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