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October 4, 2019

VIA ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: Minnesota Energy Resources Corporation's Compliance Filing Regarding Improved Customer Experience (ICE) Implementation for WEC Legacy Utilities

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota, Docket No. G011/GR-17-563

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this Compliance Filing in accordance with Order Point 27 of the Minnesota Public Utilities Commission's ("Commission's") December 26, 2018, Findings of Fact, Conclusions and Order in Docket No. G011/GR-17-563 ("2017 Rate Case Order"), which required that MERC provide the following information in a compliance filing:

- a. the business case, design plans, and implementation plan for extension of Improved Customer Experience (ICE) to other WEC legacy utilities within 90-days of completion of the exploration project;
- b. a detailed discussion of costs and benefits to MERC of the roll-out to other utilities;
- c. a discussion of any work avoided by the WEC legacy utilities due to initial development of the ICE customer platform for legacy Integrys utilities;
- d. a discussion of the extent to which the allocations of costs (according the WEC affiliated interest agreement – AIA) captures the costs and benefits to the participating utilities;
- e. a cost recovery proposal to return all appropriate amounts to MERC customers if, following roll out to MERC's affiliates, the AIA itself does not ensure that MERC ratepayers do not pay a disproportionate share of ICE.

2015 Rate Case, Docket No. G011/GR-15-736

Since 2006, MERC had used a third-party vendor, Vertex, to handle customer billing and payment processing, operate a call center for customer inquiries, and manage installation and repair crews. Vertex's system became outdated, however, and no longer provided modern levels of customer service or met needed data-protection, security, or accuracy standards. MERC's agreement with Vertex was ended in 2016. In January 2016, MERC implemented the Improved Customer Experience ("ICE") project¹ to replace Vertex's system and the other legacy Integrys utility systems, and to obtain internal efficiencies and provide necessary services to all the six legacy-Integrys utilities. The ICE system platform handles billing, credit and collections, payments, and service order processing, as well as replacing the utilities' telephone systems, web-based self-service, and customer data-security systems. Open-C, the core customer information system comprising the ICE Project, was first developed by MERC's sister utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company.

On October 31, 2016, the Commission issued its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-15-736 ("the 2015 Rate Case Order"), concluding that MERC had satisfactorily demonstrated that it was necessary to update its customer-information system because the Vertex system was outdated. The Commission further recognized that the ICE system would provide positive benefits to MERC's customers.² The Commission thus allowed MERC cost recovery of the ICE project based on MERC's share of cross-charges over 15 years or 3 years (depending on the component; approximately \$9.84 million), subject to MERC refunding \$500,000 to customers for 2016 expense and demonstrating in future annual filings that the ICE project is effective and meets appropriate customer-service benchmarks.³ As discussed in testimony in that proceeding, while the improvements to the core Open-C product enable the fundamental CIS solution to be utilized by MERC for up to 15-years, a longer period than initially projected, some aspects of the ICE project would require more frequent updates such as interactive voice response, web platforms, web interfaces, the interactive portal for transportation customers and marketers, and the data warehouse and hardware components.⁴

¹ The Improved Customer Experience, or "ICE" system, is a standard process architecture and technology customer information system platform implemented in January, 2016, for MERC and other legacy Integrys utilities. This implementation resulted in a single system across these utilities, utilizing the latest update of Open-CIS ("Open C"), version 4.0. Open C is now used by all of these utilities to handle billing, credit, and collections. ICE also replaced and standardized these utilities' telephony systems (including Interactive Voice Response ("IVR")), as well as the web-based self-service options for customers.

² *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 15 (Oct. 31, 2016).

³ *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 16 (Oct. 31, 2016). In particular, the Commission required that MERC develop, in consultation with the Minnesota Department of Commerce, Division of Energy Resources (the "Department") and the Minnesota Office of the Attorney General—Residential Utilities and Antitrust Division (the "OAG"), a tool or survey to measure the effectiveness over time of the ICE Project as it relates to the customer services that were intended to be improved by the project.

⁴ *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, Kage Rebuttal at 3-4; 5-6 (Apr. 12, 2016) ("[T]he components of ICE, other than the core CIS, will require updating more frequently to address technology

During the 2015 rate case proceeding, MERC provided testimony indicating that while the Company would not oppose providing an update regarding whether the other WEC legacy utilities⁵ will adopt ICE, at that time, WBS had no plans to implement ICE for legacy WEC utilities. Further, it would not be possible to implement ICE for the other utilities for at least three years due to the complexity, cost, and work that would be required. Finally, in the event the WEC legacy utilities adopted some form of the ICE project, the WEC legacy utilities would necessarily incur substantial additional costs and it is unclear whether those legacy utilities would benefit from any savings as a result of the existing ICE project.

In light of those considerations, the Commission adopted future reporting requirements as agreed upon between MERC and the Department.⁶ In particular, Order Point 8 of the 2015 Rate Case Order provided that:

MERC shall provide the following information with its initial filing of its next rate case:

- a. An update on the decision process for WEC legacy utilities to implement the ICE system, fully justifying any decision for the WEC legacy utilities not to use ICE;
- b. If a process has been implemented to explore the idea, or an actual timeline has been established for WEC legacy utilities to adopt ICE, MERC shall provide a detailed discussion of the status, along with a proposal to reimburse Minnesota ratepayers for their share of the ICE system (deferred and ongoing costs); and
- c. If MERC does not provide this information in its initial filing in its next rate case, the initial rate-case filing shall be considered incomplete.

Order Point 9 provided that:

In the event that WEC decides to implement the ICE system for its WEC legacy utilities prior to MERC filing its next rate case, MERC should make a filing within 30 days of such a decision, which shall also be no less than 12 months before initial implementation for WEC legacy utilities. Approval by the WEC board of directors will be considered the point of decision and will trigger the start of the 30 days. The filing should provide details of WEC's implementation plans and a proposal for adjusting the costs paid by MERC's customers for the ICE system to ensure the costs paid by MERC's customers are reasonable. If such a filing is made prior to the next rate case, the Commission can determine, at that time, whether to revise the

changes, either because the software is newer technology in the market and experiences a shorter life or because the item is a hardware component that needs replacement on a much more frequent interval.”).

⁵ The WEC legacy utilities include Wisconsin Electric Power Company and Wisconsin Gas LLC, d/b/a We Energies.

⁶ *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 17 (Oct. 31, 2016).

contents of the filing to be made by MERC in its next case, as discussed above.

Establishment of ICE Performance Metrics and Annual Reporting on Customer Service Improvements and Benefits

In accordance with the Commission's 2015 Rate Case Order, on January 31, 2017, after working with the Department, OAG, and Commission Staff, MERC submitted a Compliance Filing outlining a set of metrics, in addition to existing gas service quality reporting, to measure the effectiveness of the ICE project as it relates to the customer services that were intended to be improved by the project.⁷ As noted in that filing, MERC, the Department, and the OAG reached agreement regarding ten specific "Performance Indicators" to be used beginning in 2017, in addition to the service quality measures already reported on in MERC's annual gas service quality report. These "Performance Indicators" include:

- (1) **customer transaction satisfaction:** measures customer satisfaction with their transaction based on a third-party survey (transactions include customer service calls, moves, etc.);
- (2) **residential first call resolution:** measures customers' perception of resolving their issue on their first contact;
- (3) **billing accuracy:** percentage of bills that are not cancelled, rebilled, or adjusted;
- (4) **billing timeliness:** percentage of bills created within the billing window, not including any impacts from printing and mailing processes;
- (5) **even payment plan adoption:** percent of customers on even payment plan;
- (6) **electronic bill adoption:** percent of customer accounts enrolled in e-billing;
- (7) **electronic payment adoption:** percent of electronic payments;
- (8) **field service appointments kept:** percentage of customer appointments kept;
- (9) **IT/security:** number of masked data fields and number of tokenized customer data fields; and
- (10) **net write off as percentage of revenue:** the ratio of the dollar amount of receivables written off less recoveries against gross write-offs, divided by rolling 12-months revenue.

⁷ *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, Improved Customer Experience Compliance Filing (Jan. 31, 2017).

2017 Rate Case, Docket No. G011/GR-17-563

At the time of the filing of its next rate case on October 13, 2017, in Docket No. G011/GR-17-563, MERC submitted an update in accordance with the 2015 Rate Case Order Point 8 notifying the Commission and other interested parties that WEC had not yet made a decision regarding whether to implement the ICE system for the WEC legacy utilities.⁸ MERC submitted testimony explaining that the Company anticipated that the WEC Board of Directors may, at its December 2017 meeting, approve a project to explore implementation of some form of the ICE customer information system at the WEC legacy utilities. MERC noted that until a decision was made and project design progresses, it would be premature to determine whether the legacy WEC utilities will have any disproportionate benefits from ICE being rolled out to MERC first. As a result, MERC proposed to (1) file the business case, design plans, and implementation plan for extension of ICE to other WEC legacy utilities within 90-days of completion of the exploration project; (2) include in that filing a detailed discussion of costs and benefits to MERC of the roll-out to other utilities, including a discussion of any work avoided by the WEC legacy utilities due to initial development of the ICE customer platform for legacy Integrys utilities; (3) provide a discussion of the extent to which the allocations of costs in accordance with the Affiliated Interest Agreement (“AIA”) sufficiently captures the initial and ongoing costs and benefits to participating utilities; and (4) if a decision is made not to roll out ICE to WEC legacy utilities, provide confirmation and justification for that decision.

A decision was ultimately reached on July 19, 2018, when the Board of Directors of WEC Energy Group approved a project entitled “ICE (Open-C) R3.” That project includes the conversion of the WEC legacy utilities to the ICE platform and implementation of necessary upgrades and enhancements to Open-C across all WEC utilities by mid-2020. On August 9, 2018, MERC provided the Commission with the 30-days’ notice required under the 2015 Rate Case Order Point 9 and proposed to file the remaining analyses within 90 days of design completion, which was scheduled to be concluded in the third quarter of 2019. As explained in that August 9, 2018, Compliance Filing, that process and timeline would enable MERC to develop a better sense of the likely costs and benefits of the roll-out to other utilities and ensure costs to MERC are reasonable.

The Commission issued its 2017 Rate Case Order on December 26, 2018. Order Point 28 of that order required that:

MERC shall confirm any decision on roll-out of ICE to WEC legacy utilities within 30 days of that decision, by submission of a compliance filing that reflects both the decision and the rationale.

This required 30-day compliance filing was made August 9, 2018, twenty-one days after the WEC Board of Directors approved the implementation of R3 across all WEC legacy utilities by mid-2020.

As noted above, Order Point 27 required that MERC provide the following information in a compliance filing:

⁸ In particular, MERC provided the required information in the Direct Testimonies of Ms. Mary Wolter and Mr. Brian Kage.

- a. the business case, design plans, and implementation plan for extension of Improved Customer Experience (ICE) to other WEC legacy utilities within 90-days of completion of the exploration project;
- b. a detailed discussion of costs and benefits to MERC of the roll-out to other utilities;
- c. a discussion of any work avoided by the WEC legacy utilities due to initial development of the ICE customer platform for legacy Integrys utilities;
- d. a discussion of the extent to which the allocations of costs (according the WEC affiliated interest agreement – AIA) captures the costs and benefits to the participating utilities;
- e. a cost recovery proposal to return all appropriate amounts to MERC customers, if, following the roll out to MERC’s affiliates, the AIA itself does not ensure that MERC ratepayers do not pay a disproportionate share of ICE;

Consistent with testimony; the Administrative Law Judge’s Findings of Fact, Summary of Public Testimony, Conclusions of Law, and Recommendation; and the Commission’s decision in Docket No. G011/GR-17-563, MERC determined that the design phase of the ICE project could be equivalent to the “exploration project” referred to in (a) above. That phase was completed on approximately July 5, 2019, establishing a due date for this compliance filing of October 4, 2019. Attachment A to this compliance filing consists of the information required in Order Point 27.

Please contact me at (414) 221-2374 if you have any questions.

Sincerely,



Mary L. Wolter
Director-Gas Regulatory Planning & Policy

Enclosure
cc: Service List

ATTACHMENT A

In accordance with Order Point 27 of the Minnesota Public Utilities Commission's ("Commission's") December 26, 2018, Findings of Fact, Conclusions, and Order in Docket No. G011/GR-17-563, MERC provides the following information regarding the planned implementation of the Improved Customer Experience ("ICE") customer information system ("CIS") at Wisconsin Electric Power Company and Wisconsin Gas LLC ("WEC Legacy Utilities" or "We Energies").

A. Business Case, Design Plans, and Implementation Plan

Implementation of the ICE Project at the WEC Legacy Utilities is just one component of WEC's Customer Service 2022 ("CS2022") program, a unified vision for the WEC utilities' digital customer service.

From We to Us: One Team delivering an Integrated Customer Experience.

Customer Service 2022 is the unified vision for all WEC utilities to drive digital Customer Service in a standardized, seamless way.



Other components of CS2022 include the installation of Advanced Metering Infrastructure ("AMI") across several WEC utility jurisdictions,⁹ Mobile Work Management, and upgrades to Identity Access Management ("IAM") and MyAccount V2 (website for customer access to bills). Another component is WEC Customer Mobility ("WCM"), the customer mobile phone application that was recently rolled out to customers of Wisconsin Public Service Corporation. The phone app, now available in Apple Store and Google Play, is scheduled for rollout to MERC's customers in the fourth quarter of 2019.

⁹ As of August, 2019, 146 meters have been installed at MERC customer locations.

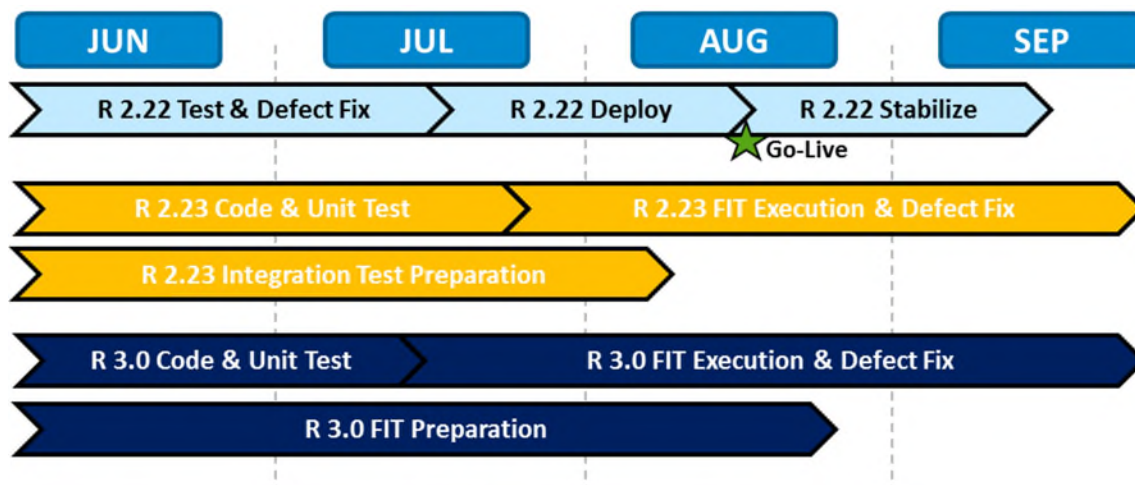
The business case for consolidating all of WEC Energy Group’s utilities into a single platform (Open-CIS) can be summarized as follows:

- All WEC Energy Group companies except We Energies are already using the Open-CIS system
- We Energies’ existing customer service system (“CSS”) is approaching end of life and would need significant investment to support items such as:
 - Future rate structures
 - New operating systems / architectures (e.g. Windows 10)
 - Continued exposure of applications to the web
- Consolidation enables synergies and savings
 - Reduced system maintenance
 - Common processes
 - Resource sharing

The ICE Project, including extension to the WEC Legacy Utilities, will continue to deliver customer benefits and annual cost savings across all WEC operating companies. Projected savings consist of:

- Structural Savings (e.g., management structure, IT support model, and elimination of legacy systems/applications)
- Operational Savings (e.g., standardizing processes and smoothing work for meter-to-bill, customer care centers, and credit & collections)

Implementation of ICE for the WEC Legacy Utilities is planned to occur in conjunction with the preparation and release of additional upgrades to the current ICE systems. These upgrades include functional improvements and contingency releases for the legacy Integrys utilities currently using ICE, including MERC. These upgrades also pave the way for the new features that will be available in R3. Version R2.22 went live in August, 2019, and R2.23 is planned for the first quarter of 2020.



MERC's customers have been receiving the benefits of the ICE project since ICE was implemented for MERC in January 2016. Since that time, system upgrades and improvements have been implemented and must continue to be implemented, which provide substantial benefits to MERC and its customers. The implementation of upgrades comprising R 2.22, R 2.23, and R3 have and will provide the following benefits to MERC. In particular, these upgrades will

- Enable capabilities within the CIS to enable AMI deployment;
- Improve the capability to confirm identity as well as fraud identification;
- Improve the capability to interact with gas suppliers and to streamline gas supply purchasing and reporting;
- Improve security within the low-income portal to heighten customer confidentiality protections;
- Enable the deployment of improved customer service offerings and billing including MERC's newly-implemented customer class rate offerings as approved in Docket No. G011/GR-17-563;
- Improve the processes for restoration of customer service for customers who have been disconnected for non-payment;
- Improve processes and efficiencies for customers requesting to stop, start, or transfer service;
- Improve processes for the collection, management, and refund of customer security deposits;
- Improve efficiencies for month-end closing processes;
- Improve customer payment agreement functionality;
- Improve customer bill design and layout to improve presentation;
- Increased automation of customer collection activities and schedules;
- Improved bill summary processes for customers with multiple accounts.

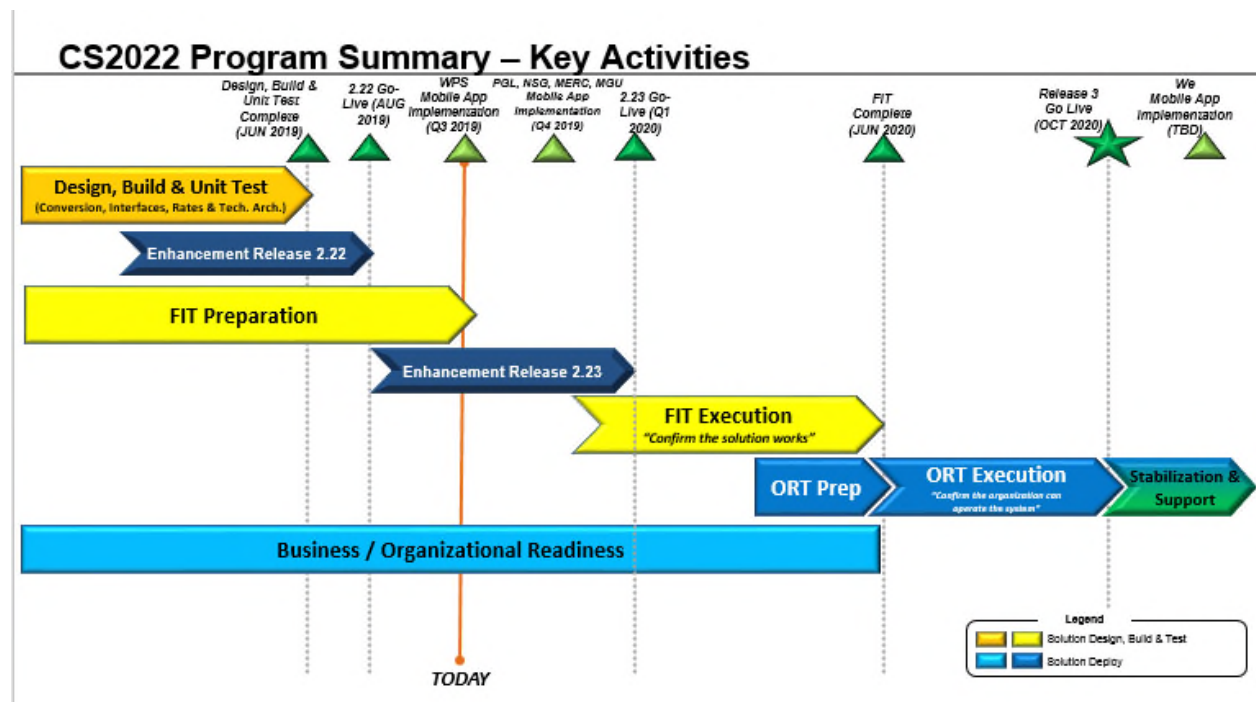
Implementation of ICE at the WEC Legacy Utilities was originally scheduled for April, 2020, with final stabilization and support activities occurring during the spring and summer of 2020. The version of ICE that the WEC Legacy Utilities will adopt is Release 3 ("R3").

Given the large number of electric customers in the We Energies service territory, the stabilization and support could be negatively impacted by spring and summer storm season activity. Milwaukee is also hosting the Democratic National Convention in July, which is anticipated to be a major distraction and stress on city resources. Therefore, this month, the ICE project deployment date was extended by WEC Executive Management from a planned deployment date of April, 2020 to October, 2020.

With the completion of the design phase, remaining significant tasks for implementation include the following:

- Completion of Functional Integration Testing (“FIT”)
 - FIT consists of testing business processes within Open-CIS and its interfaces using We Energies data in order to “confirm the solution works”
- Operational Readiness Testing (“ORT”)
 - ORT testing is focused on replicating real life production activity for Business and IT using a schedule, calendar-based approach
 - ORT uses production-like input files and full volume data (all companies)

After the “Go-Live” date, there is a significant amount of “stabilization and support” activity. Bugs are worked out in this phase and bills are scrutinized to make sure the system is performing as expected. Planning is currently underway to define the schedule dates for the remaining ICE project milestones. The current draft schedule is:



B. Costs and Benefits to MERC of the Roll-Out to Other WEC Legacy Utilities

As noted above, Open-C, the core customer information system comprising the ICE Project, was first developed by MERC’s sister utilities, Wisconsin Public Service Corporation (“WPS”) and Upper Peninsula Power Company (“UPPCO”). MERC implemented Open-C as part of the overall ICE Project in January 2016. Since that time, MERC and its customers have received the benefit of the ICE Project improvements to customer service, customer information security, billing, and other functionality.

Since implementation of the ICE project for MERC, the Company has reported each year on performance metrics to measure the effectiveness over time of the ICE Project as it relates to the customer services that were intended to be improved by the project. That reporting has reflected MERC meeting and exceeding many of the identified metrics, demonstrating the overall value of the ICE Project in achieving improved customer service and delivering on the specific areas of customer service intended to be improved upon. While factors unrelated to the ICE Project negatively impact some areas, MERC has demonstrated the effectiveness over time of the ICE Project as it relates to the customer services that were intended to be improved by the project. The Company has also demonstrated improvements in many of its standard gas service quality reporting metrics. The Commission concurred that MERC had satisfied the performance benchmarks in 2017 and authorized the Company to retain the ICE performance set-aside.¹⁰ MERC's 2018 performance reporting is currently pending but 2018 performance reflects significant improvements relative to the pre-ICE baselines and in light benchmarks. MERC's customers have and continue to benefit substantially from the ICE project each year those systems have been in place and utilized.

Performance Indicator	Pre-ICE Performance	1 st Quartile Entry Point	2 nd Quartile Entry Point	2016 Performance	2017 Performance	2018 Performance
Customer Transaction Satisfaction	62%	83.6%	72%	83.6%	86.8% (statistically adjusted)	86.9% (statistically adjusted)
Residential First Call Resolution	80.67%	85%	79%	81.78%	83.30%	91.50%
Billing Accuracy	99.53%	99.93%	99.79%	99.77%	98.93%	98.85%
Billing Timeliness	99.89%	99.50%	99.00%	98.65%	99.48%	99.37%
Even Payment Plan Adoption	14.43%	16.80%	11.90%	15.12%	15.51%	16.00%
Electronic Bill Adoption	20.27%	14.50%	10.30%	22.38%	26.21%	30.50%
Electronic Payment Adoption	55.50%	51.60%	45.30%	57.58%	60.42%	60.90%
Field Service Appointments Kept	N/A	99.0%	98.6%	99.89%	99.99%	99.99%
IT/Security	0 fields	1,386,000	N/A	N/A	1,386,000	1,386,000
Net Write Offs as a % of Revenue	0.58%	0.35%	0.52%	0.73%	0.58%	0.75%

¹⁰ *In the Matter of MERC's 2017 Annual Gas Service Quality Report*, Docket No. G011/M-18-317, ORDER ACCEPTING REPORTING, REQUIRING COMPLIANCE FILING, AND SETTING ADDITIONAL REPORTING REQUIREMENTS (Apr. 12, 2019).

Implementation of R3 consists of two components—the creation of an ICE customer information system to be utilized by the WEC Legacy Utilities and the implementation of upgrades and improvements to the already-implemented systems utilized by the legacy Integrys utilities to allow for continued and enhanced utilization by those utilities.

With respect to costs, MERC will not be allocated any portion of the costs that are necessary to implement the ICE Project at the legacy WEC utilities. Rather, the costs associated with the hardware and software necessary to build out the CIS to be utilized by the WEC Legacy Utilities will be directly billed to those utilities, consistent with the WEC Energy AIA.¹¹

MERC will benefit in two significant ways as a result of implementation of R3. First, as discussed above, implementation of the upgrades and improvements associated with R3 provide significant benefits to MERC and its customers through enhancements and improvements to current system functionalities. Second, because implementation of R3 includes roll-out of a common CIS architecture for the WEC Legacy Utilities, the upgrade costs associated with R3, as well as future ICE system capital investments and O&M expense common to all of the WEC utilities will be shared across a much larger group, resulting in a smaller overall cost being allocated to MERC.

The total cost approved by the WEC Board of Directors for all aspects of R3 (including implementation for the legacy WEC utilities and overall upgrades applicable to all utilities) is \$107.8 million. Of that, \$37.5M is related to necessary hardware and software upgrades applicable to systems investments and improvements benefitting all utilities. MERC's share of those required upgrade costs is \$1.946 million, based on allocation by number of customers.

As discussed in MERC's 2015 rate case proceeding, continued investment in software and hardware associated with the CIS and related systems is necessary to ensure continued functionality of those systems. In particular, the components of ICE, other than the core CIS, require updating more frequently to address technology changes, either because the software is newer technology in the market and experiences a shorter life or because the item is a hardware component that needs replacement on a much more frequent interval.¹²

MERC and MERC's customers receive a substantial benefit as a result of those necessary periodic upgrades being allocated across additional utilities upon rollout to the legacy WEC utilities. For instance, MERC's share of costs for the R3 system upgrades would be approximately \$3.98 million without adoption of the ICE system by the legacy WEC utilities, as compared to the \$1.946 million to be allocated with the WEC Legacy Utilities included. This results in cost savings for MERC's customers of approximately \$2.03 million for the R3 upgrades.

This cost-sharing, made possible via the terms of the affiliated interest agreement, will continue over the life of the ICE. MERC's customers will benefit significantly as a result of the opportunity to share ongoing capital and O&M costs related to ICE across a larger pool of users. Without the addition of We Energies to the ICE platform, MERC would be supporting over 10

¹¹ In accordance with the WEC Energy AIA, costs are directly charged whenever appropriate and practicable. Direct charging is essentially a 100% allocation of costs related to a particular Service to the Party receiving the Service.

¹² *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, KAGE REBUTTAL at 3-4; 5-6 (Apr. 12, 2016).

percent of ICE capital enhancement costs and O&M. MERC will receive the benefits of a comprehensive, digital customer service solution (billing, AMI network, mobile phone app, etc.) at a substantially lower cost resulting from the economies of scale of spreading costs over a larger group of customers.

C. Work Avoided by WEC Legacy Utilities

Implementing the ICE solution for the WEC Legacy Utilities requires all of the components of a major CIS project. This project consists of building the We Energies rates, We Energies interfaces, conversion processes, and expanding the technical architecture to accommodate 5 million total meters.

Once those areas of the program are developed, the project will need to perform the necessary testing and validation via the functional integration test and operational readiness test phases of the project. The operations group will then need to complete its business readiness tasks, which include staffing plans, operating models, and training, as well as internal and external communication plans. Finally, the project will execute the deployment and stabilization of the solution.

Legacy WEC utilities are not able to avoid work by adopting ICE. They would have had to either (1) invest time and capital into their existing CSS, a system that was reaching end of life; (2) independently acquire or develop a new customer system for use only by the legacy WEC utilities; or (3) invest in significant modifications necessary to adopt ICE. MERC and the other legacy Integrys companies did make an initial investment in ICE that is now being shared with the WEC Legacy Utilities, but this is consistent with all of the other software applications and innovations originally owned/created by WEC that are now being shared with the legacy Integrys companies. This benefit of the merger is that the utilities can compare systems and preserve best practices and adopt them uniformly throughout, reducing overall capital and O&M on a per-customer basis for all.

D. Allocations of Costs per the WEC Affiliated Interest Agreement (“AIA”)

The WEC AIA establishes the terms, conditions, and procedures that shall apply to the sharing of services and other transfers of goods, property assets, and rights or things between the parties to that agreement which includes all the regulated utilities and non-regulated subsidiaries of WEC Energy Group, Inc. including the service company, WEC Business Services LLC (“WBS”). It reflects the parties’ desire to plan and operate certain aspects of their businesses with the integration and efficiency of certain activities by sharing or receiving certain services, employees, properties, information systems, and/or anything else of commercial value. In addition, the service company, WBS, provides a broad array of services to regulated utilities including MERC. Appendix C to the AIA described in detail the services that WBS provides to any party but retains distinctions between regulated and non-regulated companies and the applicable cost allocators which are listed in Appendix C. This ensures that cost allocations to the utilities such as MERC are based on an equitable sharing of the costs of the good or service for which more than one party benefits.

As noted above, the WEC Energy AIA provides for the application of a priority of allocation factors for services provided by WBS.

First, costs will be directly charged whenever appropriate and practicable. Direct charging is essentially 100% allocation of costs related to a particular Service to the Party receiving the Service. Second, where direct charging is not appropriate or practicable, costs will be allocated using cost causation principles that link costs to a particular Service to the Party receiving that Service.¹³

Consistent with the provisions of the WEC Energy AIA, the costs associated with the elements of R3 were first separated so that costs associated with the creation of the CIS to be utilized by the WEC Legacy Utilities could be direct billed to those utilities, in accordance with the first allocation principle. This results in an estimated \$70.2 million of software and hardware-related costs being direct billed to the WEC Legacy Utilities.

The costs related to necessary hardware and software upgrades applicable to systems investments and improvements benefiting all utilities utilizing the ICE project will then be allocated to each utility in accordance with the second allocation principle of cost-causation. In particular, the approximate \$37.5 million of costs related to necessary hardware and software upgrades benefiting all utilities will be allocated based on number of customers where customers receiving both natural gas and electric service are counted as two customers for purposes of the allocations. The table below shows the allocation of those costs that will not be directly allocated to WEC Legacy Utilities based on number of utility customers.

Utility	Cost Allocation in 000's
We Energies (Wisconsin Gas Company LLC and Wisconsin Electric Power Company)	\$19,109
Wisconsin Public Service Corporation	\$6,659
Michigan Gas Utilities Corporation	\$1,458
The Peoples Gas Light and Coke Company	\$7,205
North Shore Gas Company	\$1,187
MERC	\$1,946

The WEC AIA benefits MERC and its customers as virtually any service MERC provides or obtains will be provided to, or obtained from, entities who are uniquely qualified to provide the service and will result in economies of scale. The AIA is narrowly tailored and allows for the continuation of reasonable procedures and pricing among affiliated service providers, and thus provides a reasonable basis as the governing agreement for the provision of intercompany shared services provided by affiliates.

¹³ *In the Matter of the Request of Minnesota Energy Resources Corporation for Modification of the WEC Energy Group Affiliated Interest Agreement*, Docket No. G011/AI-17-136, MERC Compliance Filing, WEC Energy AIA at Attachment C, "Allocation Factors for Services that WBS May Provide" (Sept. 8, 2017).

The AIA also includes annual reporting and audit requirements that provide the Minnesota Public Utilities Commission and other stakeholders with complete and detailed records.

E. Cost Recovery

ICE capital costs incurred for prior implementations of the ICE Project to legacy Integrys utilities have not been reallocated, nor should they. The investments and costs to develop those systems were for the benefit of the utilities for whom they were designed and those utilities, including MERC, have benefited from the utilization of those systems since implementation. Similarly, MERC was not charged for any investments that had been made by WPS and UPPCO for the initial development of the Open-CIS platform that was deployed in 2005. Likewise, capital costs associated with software now used by MERC that were incurred by the WEC Legacy Utilities prior to the merger have not been reallocated. For example, the SAP accounting system as customized by WEC is now being utilized by the legacy Integrys utilities without the costs associated with the development of such technology being reallocated to those utilities.

Given the nature and associated benefits of such investments, a reallocation of previous costs associated with the implementation of ICE for the legacy Integrys utilities, including MERC, is not reasonable or necessary, just as MERC should not reasonably be charged for the costs of software originally purchased or developed by other WEC utility affiliates that MERC has been able to adopt post-merger. All of the utilities are sharing in new costs as they are incurred and customers are reaping the benefits of cost savings that are arising from the sharing of technology, reduced O&M from streamlining processes, and the sharing of best practices.

The ICE system as it exists today is insufficient to meet the needs of We Energies without significant modifications. It would be difficult, if not impossible, to determine the actual cost of the base system that We Energies is adopting as the starting point of its ICE platform. The alternative is also true – it would be difficult to determine MERC's cost basis for the technology that it has adopted from We Energies.

The AIA ensures that MERC customers do not pay a disproportionate share of ICE on a going-forward basis. MERC's customers also benefit going forward because the costs of the system enhancements and O&M expense are being shared across a larger pool of users.

In the Matter of the Application of
Minnesota Energy Resources Corporation
for Authority to Increase Rates for Natural
Gas Service in Minnesota

Docket No. G011/GR-17-563

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 4th of October, 2019, on behalf of Minnesota Energy Resources Corporation, I electronically filed a true and correct copy of the enclosed Compliance Filing on www.edockets.state.mn.us. Said document was also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 4th of October, 2019.

/s/ Kristin M. Stastny
Kristin M. Stastny

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