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December 3, 2013

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. G011/AI-13-934

Dear Dr. Haar:

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

A Request by Minnesota Energy Resources Corporation (MERC) for Approval of a Modification to the Affiliated Interest Agreement Related to the Formation and Operation of Integrys Business Support, LLC.

The petition was filed on October 7, 2013 by:

Michael J. Ahern  
Dorsey & Whitney LLP  
50 South Sixth Street, Suite 1500  
Minneapolis, MN 55402-1498

The Department recommends that the Minnesota Public Utilities Commission (Commission) **accept or approve** the petition as proposed by MERC, with the understanding that the Commission will ultimately determine cost allocations in future rate proceedings.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/LERMA LA PLANTE  
Financial Analyst

LL/lt

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE,  
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/AI-13-934

**I. SUMMARY OF MERC'S PETITION**

Pursuant to Minn. Stat. §216B.48,<sup>1</sup> Minn. R. 7825.2200,<sup>2</sup> and the September 14, 1998 *Order Initiating Repeal of Rule, Granting Generic Variance, and Clarifying Internal Operating Procedures* in Docket No. E,G999/CI-98-651 (98-651 Order), Minnesota Energy Resources Corporation (MERC) filed a request with the Minnesota Public Utilities Commission (Commission) for approval of a modification to its Master Affiliated Interest Agreement (Master AIA or Agreement) between Integrys Business Support, LLC (IBS) and its regulated utility affiliates for the provision of shared services to MERC and other regulated entities within the Integrys Energy Group, Inc. (Integrys) holding company system. This filing essentially seeks approval of changes to the service company's cost allocation manual, and is filed as an affiliated interest filing because the Agreement pertains to MERC and its affiliates. MERC proposes to implement the modifications with an effective date of December 7, 2013.

Regarding the reasons why the proposed change is in the public interest, MERC states that:

[t]he modifications are designed to ensure that (i) services provided by IBS are rendered "at cost" as required by the Master AIA as well as federal law and (ii) such costs are fairly and equitably assigned or allocated in a manner consistent with Section 2.2 of the Master AIA and as approved by the Commission.<sup>3</sup>

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<sup>1</sup> Titled "Relations with Affiliated Interest."

<sup>2</sup> Titled "Utilities with Affiliated Interests; Filing."

<sup>3</sup> Petition, page 3.

Since its inception on July 1, 2006, MERC has received Commission approval of the following eight affiliated-interest dockets:

- Docket No. G007,011/AI-06-1052: this agreement governs the provision of goods, services, and property between WPS Resources Corporation and its public utility subsidiaries, including MERC, effective July 1, 2006;
- Docket No. G007,011/AI-06-1416: this manual of standards of conduct (Gas Supply Procedures) governs the provision of capacity releases and opportunity sales<sup>4</sup> available to the market, including MERC, by Wisconsin Public Service Corporation (WPSC), effective July 1, 2006;
- Docket No. G007,011/M-07-1241: this agreement governs the allocation of consolidated income tax among the Integrys affiliates;
- Docket No. G007,011/AI-07-779 (07-779): the Master AIA governs the provision and allocation of shared services, goods and property provided between IBS and its public utility subsidiaries,<sup>5</sup> effective January 1, 2008;
- Docket No. G007,011/AI-08-1376: modification of the Master AIA, which governs the provision and allocation of shared services, goods and property provided between IBS and its public utility subsidiaries, effective January 1, 2009;
- Docket No. G007, 011/AI-09-1244: additional modification of the Master AIA, which governs the provision and allocation of shared services, goods and property provided between IBS and its public utility subsidiaries, effective January 1, 2010;
- Docket No. G007,011/AI-11-168: additional modification of the Master AIA, which governs the provision and allocation of shared services, goods and property provided between IBS and its public utility subsidiaries, effective May 17, 2011; and
- Docket No. G007,011/AI-12-910: additional modification of the Master AIA, which governs the provision and allocation of shared services, goods and property provided between IBS and its public utility subsidiaries, effective July 3, 2013.

In its petition, MERC requests approval to modify (add or delete) allocation factors to the Master AIA cost allocation factors approved in the 07-779 docket in the list above.

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<sup>4</sup> According to the Gas Supply Procedures, "Opportunity sales may involve a number of different transactions, including, but not limited to, gas supply only, bundled capacity release and gas supply, buy/sells, swaps, loans, buy-backs, and city gate transactions." See MERC's Attachment 3, page 12 in Docket No. G007, 011/AI-06-1416.

<sup>5</sup> The regulated entities within the Integrys holding company system are as follows:

- MERC;
- Wisconsin Public Service Corporation, an electric and natural gas utility;
- Upper Peninsula Power Company, an electric utility;
- Michigan Gas Utilities Corporation, a natural gas utility;
- Peoples Gas Light and Coke Company, a natural gas utility; and
- North Shore Gas Company, a natural gas utility.

## II. DEPARTMENT ANALYSIS

Because the Commission approved the Master AIA in the 07-779 docket, the Department focuses its review in the instant docket on the reasonableness of the proposed modification. In MERC's Attachment 3, MERC described the proposed changes to Exhibits B and C of the Master AIA. MERC provided a full copy of the revised Exhibits B and C in MERC Attachment 2 and a red-lined version of the changes in MERC Attachment 1. Exhibit B of the Master AIA shows the expected cost allocation factor or factors that may be used for each type of service that may be provided by IBS to the regulated affiliates. Exhibit C of the Master AIA defines the specific allocation factors that are shown in Exhibit B.

As shown in MERC's Attachment 3, page 2, the modifications to the agreement include clarifications to Exhibit B and C. The proposed changes would:

- clarify the scope of "Administrative services" by specifying that services include coverage of facilities "and grounds" and printing "including customer bills and inserts;"
- rename "External affairs" to the more descriptive "Government Relations, Corporate Communication, and Regulatory Process;"
- indicate that "Human Resources" includes "wellness" in addition to health and safety and add workers compensation to benefits administration;
- provide clearer information about "Information technology" services;
- indicate that the "standards" that are part of "Supply chain" services are "inventory standards;"
- clarify the scope of "Gas engineering services" and change the name to "Engineering services" to reflect some work that is performed for electric utilities;
- indicate that the gas control function within "Gas supply" includes measurement and compliance;
- clarify that "Customer relations" includes planning and compliance, in addition to managing subcontractors; and
- revise two of the "Supply chain" allocators to more precisely define "Total Spend" and replace "Dollars Associated with Number of Inventory Issues" with "Number of Inventory Transactions."

MERC noted that both revised “Supply chain” allocators on Exhibit B have corresponding changes in Exhibit C. MERC stated that the changes would create a more accurate representation of the services using the revised allocators. For instance, the Company stated that the “Dollars Associated with Number of Inventory Issues” allocator could quickly distort the efforts involved in the service, and therefore concluded that the “number of inventory transactions” is a more accurate measure of the service provided. The Company further stated that other changes to Exhibit C are intended to define more precisely the time period for which data are gathered for determination.

The Department concurs; however, we note that the reasonableness of the use of these allocators must be reviewed in the context of a future rate proceeding, as more fully discussed below.

The Department notes that MERC, appropriately, filed its Master AIA modifications as affiliated-interest filings to ensure that public agencies are aware of its cost allocation plans with MERC’s affiliates. It is important to assess whether any of the proposed allocation methods would be problematic on their face. In addition, full evaluation of cost methodologies must be done by evaluating the specific costs against which such methodologies would be used. This second component of the information is critical to give the Commission sufficient detailed information on whether the legal standards of the affiliated-interest statute and rules, Minn. Stat. §216B.48 and Minn. Rules 7825.2200, respectively, are satisfied. Thus, any approval or acceptance of proposed changes to the Master AIA does not eliminate the need for MERC to provide evidence of the reasonableness of the cost allocation factors used in setting rates in a rate case.<sup>6</sup> In fact, it will be necessary to evaluate the specifics of each application of this allocator, both the theoretical and the practical aspects.

The Department notes the importance of assessing the application of cost allocators in practice to avoid any misunderstanding by utilities that “approval” of cost allocation manuals/methodologies, as MERC requests, grants approval of any application of the allocators or prevents use of other allocators that the Commission may find to be appropriate in a future rate proceeding. That is, irrespective of whether the Commission “approves” or simply “accepts” a proposed cost allocation manual or modification, cost allocation is relevant at the time of the utility’s rate case or other ratemaking proceeding, whenever the allocator affects rates paid by ratepayers. In general, expenditures between rate cases do not change rates, absent deferred accounting of costs or revenues or an authorized rider. The impact on ratepayers then can be shown in a rate case or any other rate proceeding in which the allocator is used, with specificity, providing the Commission with detailed information required to determine whether or not a cost methodology is reasonable.

### **III. CONCLUSION AND RECOMMENDATION**

The Department concludes that the proposed changes are reasonable and consistent with the public interest. As a result, the Department recommends that the Commission accept or approve

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<sup>6</sup> The Commission’s cost allocation principles are found in Docket No. G,E999/CI-90-1008.

Docket No. G011/AI-13-934

Analyst assigned: Lerma La Plante

Page 5

the changes to the Master AIA as proposed by MERC, with the caveat that the applications of cost allocators will be reviewed in future rate proceedings.

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