MINNESOTA PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	April 15, 2021		Agenda Item 2*
Company	Minnesota Energy Resources Corporation (MERC)		
Docket No.	**G-011/GR-17-563**		
	In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota		
Issues	Should the Commission accept MERC's compliance filing regarding Improved Customer Experience (ICE) implementation for WEC Legacy Utilities?		
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✓ **Relevant Documents**	**Date**
Commission – Findings of Fact, Conclusions, and Order	Dec. 26, 2018
MERC – Compliance Filing	Oct. 4, 2019
Department of Commerce – Comments	Jul. 30, 2020
MERC – Reply Comments	Aug. 10, 2020
Department of Commerce – Response Comments	Oct. 15, 2020

Table of Contents

I. Statement of the Issues 1
II. Introduction 1
III. Background 2
IV. Parties' Comments 5
A. Business Case, Design Plans, and Implementation Plan 5
1. MERC Petition 5
2. Department Comments 6
B. Costs and Benefits to MERC of the Roll-Out to Other WEC Legacy Utilities 7
1. MERC Petition 7
2. Department Comments 8
C. Work Avoided by WEC Legacy Utilities 8
1. MERC Petition 8
2. Department Comments 9
3. MERC Reply Comments 9
4. Department Response Comments 10
D. Allocations of Costs per the WEC Affiliated Interest Agreement ("AIA") 10
1. MERC Petition 10
2. Department Comments 12
E. Cost Recovery 12
1. MERC Petition 12
2. Department Comments 13
3. MERC Reply Comments 13
4. Department Response Comments 14
V. Decision Alternatives 14

I. Statement of the Issues

Should the Commission accept MERC's compliance filing regarding Improved Customer Experience (ICE) implementation for WEC Legacy Utilities?

II. Introduction

Minnesota Energy Resource Corporation's (MERC's) "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."[1]

In the Commission's Order,[2] in MERC's 2017 rate case, Order Point 27 required MERC to 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 to 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.

On October 4, 2019, MERC filed its *Compliance Filing Regarding Improved Customer Experience (ICE) Implementation for WEC Legacy Utilities* (Compliance Filing) pursuant to Order Point 27 of the Commission's 2017 rate case Order.

This October 4, 2019 Compliance Filing is the one currently under consideration. MERC addresses Order Point 27 of the Commission's 2017 rate case Order in its October 4, 2019 Compliance Filing, Attachment A.

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[1] MERC Compliance filing, p. 2, FN 1.

[2] FINDINGS OF FACT, CONCLUSIONS, AND ORDER, *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G-011/GR-17-563 (December 26, 2018) p. 50.

On July 30, 2020, the Department of Commerce, Division of Energy Resources (Department) submitted comments in which it recommended that the Commission accept MERC's Compliance Filing as complete, pending submission of additional information.

On August 10, 2020, MERC provided the additional information requested by the Department.

On October 15, 2020, the Department submitted its response. The Department believes MERC has satisfied the compliance requirements from Order Point 27 parts a through e from the Commission's 2017 Rate Case Order.

There is no controversy in this docket. Staff offers these briefing papers as a way to lay out how MERC complied with the Commission's 2017 rate case order and to set out decision alternatives.

III. Background

In MERC's 2015 rate case, in Docket No. G-011/GR-15-736, MERC sought recovery of its ICE platform costs. Integrys (MERC's former parent company) had recently merged with WEC. The ICE CIS platform was rolled out simultaneously to the legacy Integrys utilities allocating approximately ten percent of the capital and operating and maintenance (O&M) costs to MERC. However, the ICE platform was not simultaneously rolled out to the WEC legacy utilities. The Minnesota Department of Commerce, Division of Energy Resources (Department) raised concerns regarding the allocation of costs if ICE was paid for by Integrys legacy utilities and then later implemented to WEC legacy utilities. At the time MERC stated that it had no plan to roll out ICE to WEC legacy utilities but agreed to provide a compliance in the event that it did.

The Commission adopted future reporting requirements as agreed upon between MERC and the Department. Order Point 8 of the 2015 Rate Case Order[3] stated 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

[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 54-55 (Oct. 31, 2016).

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

In MERC's next rate case (the 2017 rate case), in Docket No. G-011/GR-17-563,

> MERC stated in its initial testimony[4] that WEC had not yet made a decision regarding whether to implement the ICE system for the WEC legacy utilities but anticipated that the WEC Board of Directors may soon approve an exploratory project. 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." This project was to include 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 by 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. This timeline, MERC stated, would enable the Company to develop a better sense of the likely costs and benefits of the roll-out to other utilities to ensure costs to MERC are reasonable.
>
> In the Commission's 2017 rate case Order,[5] Order Point 27 required that MERC provide … a compliance filing: ….

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[4] Department Comments, p. 1, FN 4, "Submitted October 13, 2017."

[5] Department Comments, p. 2, FN 5, "Issued December 26, 2018."

> On October 4, 2019, MERC filed its *Compliance Filing Regarding Improved Customer Experience (ICE) Implementation for WEC Legacy Utilities* (Compliance Filing) pursuant to Order Point 27 of the Commission's 2017 rate case Order. In its Compliance Filing, MERC stated that 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, it determined that WEC Energy Group's design phase of the ICE project could be equivalent to the "exploration project" referred to in part (a). MERC stated that the design phase was completed on approximately July 5, 2019, establishing a due date for this compliance filing of October 4, 2019.[6]

The October 4, 2019 Compliance Filing is the one currently under consideration. MERC addressed Order Point 27 of the Commission's 2017 rate case Order in its Compliance Filing, Attachment A.

On July 30, 2020, the Department submitted comments in which it recommended that the Commission accept MERC's Compliance Filing as complete, pending submission of additional information.

On August 10, 2020, MERC provided additional information in reply comments and stated:

> The information provided in the Company's Compliance Filing, in response to Department discovery, and in these Reply Comments support the conclusion that (1) the affiliated interest agreement is adequate to ensure that MERC ratepayers do not pay a disproportionate share of ICE, and (2) that there should be no reallocation of MERC's share of ICE costs incurred prior to the We Energies' implementation. Finally, MERC agrees with the Department that the reasonableness of the overall costs of We Energies' CS2022 implementation and the allocation of those project costs to MERC, if any, will be subject to review in MERC's next rate case filing.[7]

On October 15, 2020, the Department submitted its response. The Department believes that MERC has satisfied the compliance requirements from Order Point 27 parts a through e from the Commission's 2017 Rate Case Order. The Department also believes that, for purposes of this compliance matter, MERC's Affiliated Interest Agreement (AIA) will generally ensure that MERC ratepayers do not pay an unreasonable amount of ICE costs on a going-forward basis. The Department also stated, "Based on the information provided in the Company's Compliance Filing and its Reply Comments, the Department does not recommend reallocation of previously incurred ICE expenses to WEC legacy utilities."

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[6] Department Comments, pp. 1-2.

[7] MERC Reply Comments, p. 3.

IV. Parties' Comments

As noted above, Order Point 27 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 the roll out to MERC's affiliates, the AIA itself does not ensure that MERC ratepayers do not pay a disproportionate share of ICE;

A. Business Case, Design Plans, and Implementation Plan

1. MERC Petition

According to MERC, "[i]mplementation 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." The plan includes, among other things, installing advanced metering infrastructure (AMI) across several WEC jurisdictions, installing Mobile Work Management, and upgrades to its website for customer access to bills.

MERC summarized the business case for consolidating all of WEC Energy Group's utilities into a single platform (Open-CIS) 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 future rate structures, new operating systems (Windows 10), and ongoing web security;
- Consolidation enables synergies and savings through reduced system maintenance, common processes, and resource sharing; and
- Implementation of ICE for the WEC Legacy Utilities is occurring in conjunction with upgrades and functional improvements to the current ICE systems, allowing for even more features to be added in an upcoming version.

Additionally, MERC stated MERC's customers have been receiving the benefits of the ICE project including system upgrades and improvements. "The implementation of upgrades comprising R 2.22, R 2.23, and R3 have and will provide the following benefits to MERC." 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 improved customer service offerings and billing;
- 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.[8]

Regarding implementation, MERC stated:

> 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.

2. Department Comments

The Department reviewed and analyzed MERC’s compliance filing by Order Point 27 component and stated for this component:

> In light of the COVID-19 pandemic disrupting businesses toward the end of the first quarter of 2020, the Department issued Information Request No. 9 (IR 9) requesting a timeline update for versions R2.23 and R3. MERC responded that version R2.23 went live in February 2020, and version R3 is scheduled for January 22, 2021.

[8] MERC Compliance filing, Attachment A, p. 3.

> The Department is encouraged to hear that the project remains relatively close to the original schedule in light of the pandemic. The Department concludes that MERC has complied with part a. of Order Point 27 in the 2017 rate case Order.

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

Part b. of Order Point 27 required MERC to provide a detailed discussion of the costs and benefits to MERC of the roll-out to other utilities.

1. MERC Petition

MERC stated:

> 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.
>
> 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.

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 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.

[Footnotes omitted.]

2. Department Comments

The Department believes that MERC has complied with part b. of Order Point 27 in the 2017 rate case Order.

C. Work Avoided by WEC Legacy Utilities

1. MERC Petition

MERC stated in part:[9]

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

[9] MERC Compliance filing, Attachment A, p. 7.

systems and preserve best practices and adopt them uniformly throughout, reducing overall capital and O&M on a per-customer basis for all.

2. Department Comments

The Department issued Information Request No. 10 (IR 10) requesting a list of WEC pre-acquisition business applications and innovations now shared with MERC. MERC responded with the following list of applications and their uses:

- SAP ERP – Finance, supply chain, inventory/warehousing, time entry, payroll, benefits;
- UI Planner – Financial planning and forecasting;
- Power Plan Property Accounting;
- Power Plant Power Tax;
- Value Line Financial Market Valuation;
- iAvenue – Large account CRM (customer relations management);
- Aspect Work Force Manager; and
- Remedy – IT Service Management

The Department requested that MERC provide additional discussion on a few specific applications included in the above list. Specifically:[10]

> In its Reply Comments, MERC should discuss why Value Line is appropriate to include in this list, as it is a subscription service, not an off-the-shelf or internally-developed software application. The Department requests that MERC clarify whether it had a subscription to Value Line prior to the WEC acquisition, whether it uses the subscription currently, and any cost differential experienced. Additionally, iAvenue and Aspect Work Force Manager appear to be customer relations management and call center software, respectively. MERC should provide clarification as to why these applications are not duplicative of functionalities within the ICE platform.

3. MERC Reply Comments

In its Reply Comments, MERC provided the requested information as follows:

> **Value Line Financial Market Valuation**
>
> The Value Line Financial Market Valuation software is an off-the-shelf software package, not a subscription service. We Energies originally acquired licenses for this software prior to the acquisition of Integrys Energy Group, Inc. This software continues to be used by WEC for inflation forecasting and market analysis. MERC did not possess Value Line or the Financial Market Valuation software prior to the

[10] Department Comments, pp. 5-6.

WEC acquisition and now benefits from its functionality for inflation forecasting (e.g., budgeting) and market analysis (e.g., rate case rate of return analysis).

iAvenue and Aspect Work Force Manager

iAvenue and Aspect are indeed customer relations management ("CRM") and call center management software respectively, and their functionalities overlap with the ICE platform. They were included on the list provided because these We Energies applications bring additional incremental value beyond what is provided by the ICE platform. The iAvenue CRM includes richer functionality than that originally provided in ICE, and MERC is now able to make use of that functionality post-merger. iAvenue manages contacts and other business information about larger commercial and industrial customers. Features above and beyond standard ICE capabilities include Outlook integration for email communication and interaction/task tracking to better manage customer relationships.

In the case of Aspect, prior to the merger, legacy Integrys and We Energies each had their own implementations of this software. Post-merger, the go-forward solution synergized the best of both. Thus, while MERC was using its own implementation of the software in addition to ICE pre-acquisition, the enhancements provided by We Energies did result in additional incremental enhancements that were shared with MERC at no additional cost. Standard practices for scheduling and managing call center resources across all of WEC have been configured in Aspect. This allows for backup and support from the enterprise-wide call center network if/when needed, ultimately enabling more timely and reliable call center services for MERC customers.

4. Department Response Comments

The Department stated that it appreciates the additional discussion provided by MERC regarding the Value Line Financial Market Valuation application and iAvenue and Aspect Work Force Manager.

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

In Order Point 27.d. of the 2017 Rate Case Order, MERC was required to provide a discussion of the extent to which the allocations of costs (according to the WEC affiliated interest agreement – AIA) captures the costs and benefits to the participating utilities.

1. MERC Petition

MERC explained that "[t]he 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 nonregulated subsidiaries of WEC Energy Group, Inc. including the service company, WEC Business Services LLC ("WBS")."[11]

The WEC Energy AIA provides for the following 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.[12]

MERC stated:

> 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.

MERC was allocated approximately $1.946 million, or approximately 5 percent, of the approximate $37.5 million of costs related to necessary hardware and software upgrades benefitting all utilities.

Regarding the benefits of allocating costs according to the WEC AIA, MERC stated:

> 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

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[11] MERC Compliance filing, Attachment A, p. 7.

[12] Id., at FN 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)."

> 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.

2. Department Comments

According to the Department:

> MERC has been assigned approximately five percent of the version R3 costs allocated across utilities. This is about half of the initial 11 percent allocation of the initial capital costs assigned to MERC for the ICE platform that was created for Integrys legacy utilities. According to MERC's response to the Department's Information Request No. 11, the entirety of these indirect costs are capital costs amortized over a 15-year useful life.[13] [Footnotes omitted.]

The Department believes that MERC complied with the Commission's 2017 rate case Order Point 27.d.

E. Cost Recovery

In Order Point 27.e. of the 2017 Rate Case Order, MERC was required to provide "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[.]"

1. MERC Petition

MERC stated:

> 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

[13] Department Comments, p. 6.

> 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 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.

2. Department Comments

The Department stated:

> …While total costs for the customer service suite have increased, the percentage of the incremental costs allocated to MERC has dropped by half. The Department will refrain, however, from making a conclusion about the re-allocation of prior ICE costs until it can evaluate the additional information on the technology applications shared from WEC to MERC, requested in Section II.C.
>
> As always, costs related to the CS2022 project, directly assigned and/or allocated to MERC going forward, will be evaluated in MERC's next rate case.

The Department ended its comments by stating:

> The Department appreciates the information provided [by] MERC in its Compliance Filing, and concludes that the Company has generally satisfied the requirements of Order Point 27 in the Commission's 2017 rate case Order. Therefore, the Department recommends that the Commission accept MERC's Compliance Filing, pending submission of further information from the Company. This recommendation does not apply to the reasonableness of the overall costs of the CS2022 program, or allocation of those costs to MERC. That analysis will be completed during the Department's investigation period in the Company's next rate case.

3. MERC Reply Comments

In Summary, MERC stated:

> The information provided in the Company's Compliance Filing, in response to Department discovery, and in these Reply Comments support the conclusion that (1) the affiliated interest agreement is adequate to ensure that MERC ratepayers do not pay a disproportionate share of ICE, and (2) that there should be no

> reallocation of MERC's share of ICE costs incurred prior to the We Energies' implementation. Finally, MERC agrees with the Department that the reasonableness of the overall costs of We Energies' CS2022 implementation and the allocation of those project costs to MERC, if any, will be subject to review in MERC's next rate case filing.

4. Department Response Comments

The Department believes MERC has satisfied the compliance requirements from Order Point 27 parts a through e from the Commission's 2017 Rate Case Order.

The Department also concluded that,

> for purposes of this compliance matter, MERC's Affiliated Interest Agreement (AIA) will generally ensure that MERC ratepayers do not pay an unreasonable amount of ICE costs on a going-forward basis. The specific details of how to calculate a reasonable level of costs to allocate to MERC will be determined in future AIA dockets.

The Department further stated:

> While WEC ratepayers will benefit from ICE, MERC has discussed an exchange of technology with, and considerable investment by, WEC that is mutually beneficial. For example, MERC's use of the SAP ERP software application from WEC is a sizeable exchange. In addition, smaller applications are compatible with and provide incremental functionality to ICE. Based on the information provided in the Company's Compliance Filing and its Reply Comments, **the Department does not recommend reallocation of previously incurred ICE expenses to WEC legacy utilities.** [Emphasis added.]

In addition, the Department recognized that MERC acknowledged

> … the Department's recommendations here do not apply to the reasonableness of the overall CS2022 program costs or the relevant allocations. That analysis will be completed during the Department's investigation in the Company's next rate case.

V. Decision Alternatives

1. Accept MERC's compliance filing including its reply comments regarding Improved Customer Experience (ICE) implementation for WEC Legacy Utilities. [MERC, Department] or

2. Reject MERC's compliance filing regarding Improved Customer Experience (ICE) implementation for WEC Legacy Utilities.