



Minnesota Energy Resources Corporation

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May 2, 2016

VIA ELECTRONIC FILING

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

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation
for Authorization to Establish Amortization Periods Related to Pre-
Acquisition Pension and Other Postretirement Benefit Costs

Docket No. G011/M-15-992

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC") appreciates the opportunity to reply to the Department of Commerce, Division of Energy Resources ("Department" or "DOC") comments regarding MERC's request to establish amortization periods for its pension and benefit costs and credits that the company incurred before the acquisition of its corporate parent, Integrys Energy Group, Inc. ("Integrys"), by WEC Energy Group, Inc. ("WEC", f/k/a Wisconsin Energy Corporation).

In these Reply Comments, MERC clarifies that:

1. MERC is only seeking amortization periods for MERC and Integrys Business Support ("IBS") (now WEC Business Services, LLC ("WBS")) net pension and other post-employment benefit ("OPEB") assets that postdate MERC's acquisition of Aquila assets. The MERC and IBS regulatory assets in question have existed since 2007 due to standard pension accounting, but are unrelated to the Aquila acquisition; and
2. MERC does not seek any change in the treatment of Aquila assets that have already been approved by the Minnesota Public Utilities Commission ("Commission") in Docket No. G007,011/M-06-1287.

In making this request, MERC proposes amortization periods that will keep annual MERC/IBS post-acquisition pension and OPEB costs approximately in-line with pre-acquisition costs for these same assets. MERC anticipates an increase of \$27,932 to MERC customers through the concurrent rate case (Docket No. G011/GR-15-736) if the Commission approves the proposed amortization periods and if MERC's Rebuttal position is accepted. This, in turn, will reduce the costs of administering multiple

actuarial analyses and minimize the customer impact of the purchase accounting revaluation.

MERC provides these Reply Comments in response to the Department and looks forward to the Department's continued review of this petition.

Please contact me at (651) 322-8965 if you have any questions.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

Enclosures
cc: Service List

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
Matt Schuerger
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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REPLY COMMENTS

Minnesota Energy Resources Corporation (“MERC”) submits these comments in response to the April 20, 2016, comments of the Minnesota Department of Commerce – Division of Energy Resources (“Department”) in the above-referenced matter. In its comments, the Department: (1) concluded that MERC had not supported its initial petition regarding three legacy asset components; (2) recommended the Minnesota Public Utilities Commission (“Commission”) deny MERC’s proposal to create a regulatory asset for Supplemental Executive Retirement Plan (“SERP”) costs; and (3) requested MERC indicate in Reply Comments whether the pension amounts identified in the instant proceeding are included in the Company’s concurrent rate case. The Department reserved its final recommendation to the Commission pending MERC’s Reply Comments. MERC appreciates the Department’s review in this matter and responds to the issues raised below.

I. MERC’s Request Does Not Pertain To Or Affect the Aquila Assets.

At the outset, MERC wishes to clarify that our Petition in this Docket is not seeking any Commission action with respect to the pension and other postemployment benefit assets MERC acquired from Aquila in 2006. The amortization of those assets was established by Commission Order dated July 30, 2007, in Docket No. G007,011/M-06-1287, and MERC does not seek to disturb those conclusions. These assets were not subject to change because of WEC/Integrus purchase accounting requirements and therefore it is not necessary to adjust the amortization of these assets.¹

¹ The value of the Aquila regulatory asset is already at fair value because it is outside of the actuary calculations under FAS 87 and 106; therefore, there is nothing to update in purchase accounting. MERC will continue to amortize \$49,638.73 monthly through June 2026 until the Aquila regulatory asset is fully

Rather, MERC's Petition seeks to establish the amortization period applicable to other regulatory assets related to MERC and Integrys Business Support ("IBS") that were generated on behalf of MERC and IBS employees after the Aquila acquisition in 2006 but before the WEC Energy Group, Inc. ("WEC", f/k/a Wisconsin Energy Corporation) acquisition of Integrys Energy Group, Inc. ("Integrys") in 2015.

The regulatory assets MERC seeks to re-amortize, as shown on Exhibit 3 to our initial Petition in this docket, have existed since 2007. They were created after the 2006 issuance of Financial Accounting Standard ("FAS") 158, which required companies to separately record the gains and losses associated with pension and other post-retirement benefit assets and liabilities subject to smoothing. It is only coincidental that this recording of MERC/IBS gains and losses was first required shortly after the Aquila amortization was approved, and one is unrelated to the other. MERC and IBS have been separately recording the deferral and amortization, or "smoothing," of gains and losses related to the pension and other post-employment benefit ("OPEB") plans as regulatory assets since 2007 due to the 2006 issuance of FAS 158.

With the occurrence of the WEC/Integrys merger, Generally Accepted Accounting Principles ("GAAP") required the companies to establish the fair market value of these assets as of the date of the merger. Thus the purpose of this petition is not to seek regulatory asset status, since these assets have existed since 2007 under FAS 158, but rather to establish a reasonable regulatory amortization period for these assets because they were "frozen" at fair market value at the time of the WEC/Integrys merger.

The accounts presented by MERC in Exhibit 3 of its November 20, 2015 Petition in this Docket are the accounts for which MERC seeks to establish a regulatory amortization.² Table 1, below, illustrates that the regulatory assets that are the subject of this Petition are simply being recorded to a new account (account 182623) specifically for the WEC/Integrys acquisition. Table 1 further illustrates that no change is occurring with respect to the Aquila assets:

amortized. This amortization is likewise reflected and has not been contested in MERC's current rate case.

² If a line item on Exhibit 3 of MERC's petition had a zero amortization in MERC's initial filing, that zero meant only that there were no amortizations included in the GAAP expense calculated by the actuary for the test year. Under smoothing, amortizations are not triggered until the deferred costs exceed a threshold. Thus the existence of a zero does not indicate the regulatory asset did not previously exist.

Table 1³

	12/31/15 (before regulatory accounting)	Change	12/31/15 (pro-forma)
MERC			
Account 182351 (Aquila)	\$ 6,254,480.16	\$ -	\$ 6,254,480.16
Account 182312 (FAS 158)	9,537,283.00	(9,537,283.00)	-
Account 182623 (this petition)	-	9,537,283.00	9,537,283.00
Total	\$15,791,763.16	\$ -	\$15,791,763.16
WBS			
Account 182312 (FAS 158)	\$15,669,845.00	\$(15,669,845.00)	\$ -
Account 254490 (FAS 158)	(186,395.00)	186,395.00	-
Account 182623 (this petition)	-	15,483,450.00	15,483,450.00
Total	\$15,483,450.00	\$ -	\$15,483,450.00

In the current Docket, MERC requests that the Commission recognize the fair market value of the MERC and IBS pension and OPEB assets and liabilities as of the time of the WEC/Integrus merger, and approve MERC's proposed amortization period for these pre-acquisition net regulatory assets.⁴ As described in MERC's initial Petition and illustrated in Exhibit 3 to that Petition, MERC proposes an amortization of MERC assets over a period of 15 years, and to amortize MERC's portion of the IBS/WBS assets over their remaining service lives ranging from 5 to 11.5 years. The basis for these amortization periods is described in more detail below.

II. Impact on Concurrent Rate Case

In its comments, the Department requested MERC clarify the connection of this petition to its concurrent rate case. MERC's proposal in this Docket does not require any particular ratemaking outcome in the concurrent rate case. However, as discussed below, in this Petition MERC has proposed amortization periods that would allow the annual amortization expense to approximately equal the level included in rates for the 2016 test year. In this way, whenever this amortization is reflected in rates, the impact to customers would be minimal.

³ Further, Exhibits 1 and 2 to MERC's initial Petition in this docket illustrate that that the total book balances for the MERC and WBS assets were re-measured as of June 30, 2015 to account for the WEC/Integrus merger. In contrast, the Aquila balance remained the same before and after the WEC/Integrus merger, subject only to the \$49,638.73 monthly amortization approved in Docket No. G-007/M-06-1287.

⁴ If the Commission believes it is necessary to establish a new regulatory asset, MERC requests that the asset be established in the manner described here, consistent with the manner in which the Commission established a regulatory asset in the Aquila docket. However, as discussed below MERC does not request rate recovery related to the regulatory assets associated with nonqualified plan accounts, which include the SERP.

Further, while MERC's Rebuttal Testimony in the rate case proposes to update for this re-amortization, the Commission will have the opportunity to determine the overall cost recovery of pension and OPEB costs in the rate case.

Exhibit 3 to MERC's Petition in this Docket illustrates that the amortization of MERC and IBS pension and OPEB costs per ASC 715 "smoothing" (that is, before and unrelated to the WEC/Integrus merger) resulted in total costs of \$707,449 to MERC. MERC's 2016 test year budget was established before the purchase accounting for the WEC/Integrus acquisition was complete. Therefore, the costs included in MERC's 2016 test year did not reflect the fair market value of the net assets at the time of the WEC/Integrus acquisition nor the re-amortization of those assets to account for purchase accounting requirements. In addition, as discussed in the rate case Direct Testimony of MERC witness Christine Hans,⁵ MERC removed non-qualified plan costs from its initial rate case request. As a result, as illustrated in Table 2, below, eliminating the costs related to the non-qualified plans from the initial rate case request resulted in costs of \$701,260.

⁵ *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-15-736, HANS DIRECT at 5 (Sept. 30, 2015).

Table 2

Minnesota Energy Resources Corporation		Amounts in Docket No. G011/GR-15-736	
Account Number	Account Description	Rate Case Initial Filing*	Rebuttal Position in Rate Case**
[A]	[B]	[D]	[E]
<u>MERC Benefit Plans</u>			
926060	Pension Expense	\$ 710,154	\$ 467,626
926210	Pension Restoration	not requested	not requested
926220	Integrays SERP	not requested	not requested
926220	MERC SERP	not requested	not requested
926180	Post Retirement Medical -Admin	(69,605)	151,424
926180	Post Retirement Medical -Non-Admin	8,757	7,927
926305	Postretirement Life	1,444	975
	Total MERC Costs	\$ 650,750	\$ 627,952
<u>Legacy IBS Benefit Plans</u>			
926300	Pension Expense	\$ 1,329,428	\$ 2,571,448
926300	Pension Restoration	not requested	not requested
926300	Integrays SERP	not requested	not requested
926300	Peoples Energy Supplemental Plan	not requested	not requested
926300	Peoples Energy Retiree Welfare	(35,040)	(35,040) ***
926300	Post Retirement Medical -Admin	(647)	56,560
926300	Postretirement Life	0	1,538
	Total Legacy IBS Costs	\$ 1,293,741	\$ 2,594,506
	<i>MERC Share of Legacy IBS Costs at 3.9%</i>	<i>\$ 50,456</i>	<i>\$ 101,186</i>
	GRAND TOTAL MERC Costs	\$ 701,206	\$ 729,138

* Based on GAAP 2016 estimate received before merger, non-qualified excluded from rate case.

** Rebuttal reflected proposed amortization, non-qualified still excluded from rate case. Amounts documented in Exhibit_CMH-R2_Attach 01

*** This amount was not updated in rebuttal position.

In Rebuttal Testimony in its concurrent rate case, MERC proposed to update its actuarial pension and OPEB costs to reflect more current information available as of December 31, 2015 with respect to both (i) the amount of post-acquisition pension and OPEB costs,⁶ and (ii) the updated amortizations of the pre- WEC/Integrays costs

⁶ MERC provided updated 2016 test year costs for current pension and OPEB costs using the most recent December 31, 2015 measurement date. These updated costs were provided in responses to Information Requests DOC IR-169 through DOC IR-172 in the rate case, and are reflected in the rate case Rebuttal Testimony of MERC witness Christine Hans.

included in this petition.⁷ Solely with respect to the updated amortizations requested in this current Docket, the pre-acquisition costs to MERC (again excluding the nonqualified plans) would equate to \$729,138, as reflected in Table 2, for a difference of \$27,932 per year.

By way of comparison only, MERC notes that it proposed a similar approach in Docket No. G007,011/M-06-1287 related to the Aquila assets. There, the Commission approved the petition to create and amortize the regulatory asset, based in part on the recommendations of the Department of Commerce that “the proposed regulatory asset would have MERC recognize approximately the same pension cost level that Aquila would have recorded had it continued to own the natural gas distribution assets.”⁸ Actual approval of cost recovery was approved in future rate cases. MERC seeks the same overall outcome here.

This petition does not require the use of unusual accounting procedures and if it is approved MERC plans to continue accounting for its pension and OPEB assets as previously allowed by GAAP and its state regulators. The proposed approach would align regulatory cost with the historical actuarial recognition, properly reflect the value of pension and OPEB costs allocated to MERC, and reduce MERC’s administrative and actuarial costs.

III. Supplemental Executive Retirement Plan Costs

In its comments, the Department recommended the Commission deny MERC’s proposal insofar as it would create a regulatory asset for SERP costs. MERC does not seek to recover the costs of non-qualified pension assets for which the Commission has typically denied recovery, such as SERP. Rather, MERC seeks regulatory approval for the amortization period for these assets, after which the regulatory asset would continue to be removed from cost recovery requests in the future (assuming no change in Commission or company policy) as it has been removed from the Company’s request for recovery in the current case.

IV. Update on Other Jurisdictions

Finally, MERC notes solely for the Commission’s information that other WEC subsidiaries have received approval of their proposed accounting treatment for similar assets.⁹ In light of these approvals, should the Minnesota Commission likewise

⁷ *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-15-736, HANS REBUTTAL (Apr. 12, 2016).

⁸ Order, Docket No. G-007,011/M-06-1287 at page 2.

⁹ The Illinois Commerce Commission issued an order approving similar accounting treatment for MERC’s affiliates The Peoples Gas Light and Coke Company and North Shore Gas Company in Docket 15-0606. The Michigan Public Service Commission issued an order approving similar accounting treatment for MERC’s affiliates Wisconsin Public Service Corporation (“WPSC”) and Michigan Gas Utilities Corporation

approve MERC's Petition, legacy Integrys utilities have secured all of the approvals needed to maintain a single set of actuarial books and records for the assets at issue in this Petition.

V. Conclusion

For the reasons discussed herein, MERC respectfully requests the Commission authorize the amortization of MERC and IBS pension and OPEB assets and liabilities subject to purchase accounting as a result of the WEC/Integrys merger, effective January 1, 2016.

Respectfully Submitted,

Minnesota Energy Resources Corporation

/s/ Amber S. Lee

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in Case No. U-17967. The Public Service Commission of Wisconsin issued an order approving similar accounting treatment for WPSC in Docket No. 6690-GF-136. MERC recognizes that this Commission is not bound by the decisions of other jurisdictions, but provides this information in case it is useful to the Commission or its Staff.

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CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 2nd day of May, 2016, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed 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.

Dated this 2nd day of May, 2016.

/s/ Kristin M. Stastny
Kristin M. Stastny

[illegible]

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