

July 24, 2017

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Supplemental Response Comments of the Minnesota Department of Commerce,  
Division of Energy Resources**  
Docket No. G011/AI-17-136

Dear Mr. Wolf:

Attached are the supplemental response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A Request by Minnesota Energy Resources Corporation (MERC) for Modification of the WEC Energy Group Affiliated Interest Agreement Docket No. G011/AI-17-136.

The petition was filed on February 9, 2017 by:

Amber S. Lee  
Regulatory and Legislative Affairs Manager  
Minnesota Energy Resources Corporations  
1995 Rahncliff Court, Suite 200  
Eagan, MN 55122

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the proposed revisions to the WEC Energy Group Affiliated Interest Agreement in conjunction with the addendum to the agreement, as included and modified in Section III of these comments.** The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DOROTHY E. MORRISSEY  
Financial Analyst

DEM/lt  
Attachment



## Before the Minnesota Public Utilities Commission

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### Supplemental Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G011/AI-17-136

#### I. BACKGROUND

On February 9, 2017, Minnesota Energy Resources Corporation (MERC or the Company) filed a request with the Minnesota Public Utilities Commission (Commission) for approval of modifications to the Affiliated-Interest Agreement (AIA or Agreement) with WEC Energy Group, Inc. (WEC Energy).<sup>1</sup> MERC sought to add two parties to the Agreement as Regulated Parties and proposed other modifications.

On April 11, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) filed comments and recommended that the Commission:

- Approve the addition of Upper Michigan Energy Resources Corporation (UMERC) to Appendix A – “Regulated Parties” to the Agreement;
- Approve the revision to Article VIII.1, to modify the effective date provision from “first day of the fiscal quarter” to “first day of the month” following approval of waivers of the Commissions;<sup>2</sup> and
- Reject the classification of Bluewater Gas Storage, LLC (Bluewater) as a Regulated Party.

The Department also requested that MERC submit in reply comments, the following:

- A revised Agreement wherein Bluewater Gas Storage, LLC is classified as a Non-regulated Party, including revisions to any corresponding Agreement modifications; and
- A revised Attachment 3 with the current WEC Energy Group, Inc. organizational chart, explain the nature of the WEC Energy organizational chart revision and file the organizational chart in Dockets PR-16-17 and PR-17-17.

In its April 20, 2017 reply comments, MERC disagreed with the Department’s recommendation to reject the Bluewater’s classification as a Regulated Party within the AIA, thus did not provide a revised Agreement. However, MERC did accept the Department’s two “approve”

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<sup>1</sup> Pursuant to Minn. Stat. §216B.48, Minn. R. 7825.2200, 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).

<sup>2</sup> Approvals or Waivers were also filed with the Illinois Public Service Commission (Docket No. 17-0087), and Wisconsin Public Service Commission (Docket No. 5-DR-112).

recommendations (listed above), and did provide the current WEC Energy Group, Inc. organizational chart in this docket and in the annual AIA periodic reporting filings, Docket Nos. PR-16-17 and PR-17-17.

On June 7, 2017, the Department filed response comments maintaining its recommendations, adding a recommendation that the Commission require MERC to submit a revised AIA.

On June 15, 2017, MERC filed additional reply comments proposing to resolve issues by amending the WEC Energy AIA in the form of a rider applicable only to MERC to address the Department's pricing provision concerns.

On July 7, 2017, MERC filed a letter to update the Commission on the Public Service Commission of Wisconsin proceeding.

## II. SUMMARY OF FILING

MERC stated that the primary purpose of the proposed modifications to the WEC Energy AIA, as discussed in MERC's Petition and April 20, 2017, Reply Comments, is to allow Bluewater to obtain relevant services from WEC Business Services LLC (WBS), WEC Energy's centralized services company.

MERC stated that it continues to believe its initial proposal to designate Bluewater as a Regulated Party is appropriate. However, if the Commission concludes that transactions between MERC and Bluewater should be priced as if Bluewater were designated as a "Non-Regulated Party," MERC offered an addendum/rider to its AIA. To address the Department's concerns regarding pricing provisions for Regulated and Non-Regulated Parties under the WEC Energy AIA, MERC proposed to amend the WEC Energy AIA in the form of a rider to designate Bluewater as a Non-Regulated Party *only with respect to transactions with MERC*. MERC proposed that for all other transactions, Bluewater would be designated as a Regulated Party. The proposed AIA addendum was included as Attachment B to MERC's additional reply comments, and is included below as Exhibit 1:

### **Exhibit 1**

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#### **ADDENDUM TO AFFILIATED INTEREST AGREEMENT**

Notwithstanding the provisions of the WEC Energy Affiliated Interest Agreement ("Agreement") by and among WEC Energy Group, Inc. ("WEC Energy"), the Regulated Parties listed on Appendix A of the Agreement, and the Non-Regulated Parties listed on Appendix B of the Agreement, Bluewater Gas Storage, LLC ("Bluewater") shall be deemed to be a Non-Regulated Party for the limited purpose of any transactions Bluewater may have with Minnesota Energy Resources Corporation ("MERC") and all rights and obligations of MERC with

respect to any transactions with a Non-Regulated Party shall apply fully to any transactions between MERC and Bluewater.

### III. DEPARTMENT ANALYSIS

The DOC believes MERC's approach to add a rider addendum to the AIA to resolve issues is reasonable. However, the Department recommends the inclusion of additional language to MERC's proposed rider language to further ensure that Bluewater's costs that could be allocated to MERC through the centralized service company (WBS), are determined in manner applicable to non-regulated affiliates.

As raised in the Department's June 7, 2017 response comments, what constitutes "cost" of the affiliate that provides service to WBS is dependent upon whether the affiliate is regulated or non-regulated.<sup>3</sup> There was little to no discussion in the prior exchanged comments and replies or the filing that indicated Bluewater would be providing services to WBS. However, to the extent that Bluewater does provide service to WBS, and Bluewater's service costs are allocated, directly or indirectly to MERC via WBS, the "cost" passed onto MERC should be determined by the AIA provision relevant to non-regulated affiliates, consistent with the same reasoning that the Department recommends that Bluewater be classified as "non-regulated" within the AIA.

Therefore, the Department recommends modification to MERC's proposed rider language, to read as follows:

#### **Exhibit 2**

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#### **ADDENDUM TO AFFILIATED INTEREST AGREEMENT**

Notwithstanding the provisions of the WEC Energy Affiliated Interest Agreement ("Agreement") by and among WEC Energy Group, Inc. ("WEC Energy"), the Regulated Parties listed on Appendix A of the Agreement, and the Non-Regulated Parties listed on Appendix B of the Agreement, Bluewater Gas Storage, LLC ("Bluewater") shall be deemed to be a Non-Regulated Party for the limited purposes of (1) any transactions Bluewater may have with Minnesota Energy Resources Corporation ("MERC") and all rights and obligations of MERC with respect to any transactions with a Non-Regulated Party shall apply fully to any transactions between MERC and Bluewater; and (2) determining the costs allocated to MERC from WEC Business Services LLC ("WBS"), the centralized service company, that result from services provided by Bluewater to WBS (per Articles III.1.d and III.3).

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<sup>3</sup> See AIA Articles III.1.d, III.2 and III.3 and Department Response Comments, pp. 4-5, filed June 7, 2017.

#### **IV. CONCLUSION AND RECOMMENDATIONS**

In conclusion, the Department recommends that the Commission approve the proposed revisions to the WEC Energy Group Affiliated Interest Agreement in conjunction with an addendum to the agreement, as suggested by MERC, and modified by the Department as indicated in Section III of these comments. The Department also recommends that the Commission require MERC to file the Commission-approved revised AIA in a compliance filing no later than 10 days after the Commission's Order in this matter.

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