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December 1, 2016

VIA ELECTRONIC FILING

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

RE: Reply Comments of Minnesota Energy Resources Corporation
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") submits these comments in reply to the November 21, 2016, response comments ("November 21 Response Comments") of the Minnesota Department of Commerce, Division of Energy Resources (the "Department") in the above-referenced matter.

The parties have had a number of discussions since the Company filed its initial petition in this docket, which seeks to re-amortize MERC and former Integrys Business Services ("IBS") pension and other post-employment benefit ("OPEB") amounts incurred prior to the WEC Energy Group/Integrys merger. Through these discussions and the parties' comments in this docket, we believe the Department and the Company have reached agreement on the essential points, with one limited issue remaining outstanding.

In its November 21 Response Comments, the Department recommended that the Commission:

- Allow for the creation of an amortization of MERC's pension and OPEB assets equal to \$10,003,321 million;
- Set the amortization period at 14 years;
- Allow the amortization to begin January 1, 2016;
- Allow MERC to book \$566,401 in costs related to IBS legacy benefit plans to its balance sheet (this amount is included in the \$10,003,321 figure above);

- Require MERC to ring-fence the \$10,003,[3]21¹ in costs it is being allowed to amortize such that none of those costs are eligible to be recovered in rate base,² and
- Don't allow MERC to include its requested \$137,819 in SERP costs in the deferred account.

After further discussion with the Department and in light of recent rate case outcomes regarding the inclusion of pension and OPEB assets in rate base, the Company agrees to each of these recommendations, with the exception of the proposal to separate Supplemental Executive Retirement Plan ("SERP") costs totaling \$137,819 from the deferred account.

MERC has sought to be clear that its petition does not request cost recovery, but rather to establish an amortization period of previously deferred assets consistent with purchase accounting rules. Accordingly, this amortization petition was filed in an effort to reduce the customer costs of maintaining separate books and records for the assets in question, rather than to obtain any determinations regarding future recovery of these costs. With respect to the Department's SERP recommendation, we believe the parties are in agreement on the underlying principle that pre-acquisition SERP expenses or assets will not be part of MERC's cost recovery requests in current or future rate proceedings. As MERC noted in its August Reply Comments, MERC did not seek recovery of SERP costs in its 2013 rate case and excluded SERP costs in its rate case filed in 2015. Consequently, the requested amortization of these assets and liabilities is independent of their rate recoverability. The Company further agrees that it will not seek rate recovery of these pre-acquisition SERP costs in any future rate proceeding.

In its November 21 Response Comments, the Department appears to continue to recommend exclusion of the SERP costs from the deferred account based on its understanding that MERC has already incurred external (Towers Watson) and internal costs to separate the SERP costs from other pre-acquisition costs. This is not the case, and MERC apologizes if it was unclear in communications with the Department. The purpose of MERC's petition is to avoid incurring the actuarial and administrative costs of creating a second set of actuarial valuations for current or future years, and MERC has not yet incurred those costs. Because the Company has agreed not to seek recovery of these SERP costs at any future time, MERC believes that the Department's proposed treatment of SERP costs creates future administrative burdens without yielding material benefits.

¹ This Department recommendation references ring-fencing an amount totaling \$10,003,121, which appears to be a minor typographical error as the Department utilizes the correct total costs without SERP of \$10,003,321 elsewhere in its November 21 Response Comments.

² MERC agrees with the Department's ring-fence recommendation; if the Commission approves this petition MERC will not include these assets in rate base in future rate case filings but we will seek to recover the amortized amount as expense.

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As a result, MERC asks the Commission to approve amortization of MERC's and IBS's pre-acquisition pension and OPEB assets equal to the full \$10,141,140 million (\$10,003,321 + \$137,819 in SERP costs), amortized for a period of 14 years beginning January 1, 2016. MERC also recommends the inclusion of an order point acknowledging that "MERC will not seek cost recovery of pre-acquisition SERP costs in future rate cases or other cost-recovery proceedings."

We again thank the Department for its work and productive discussions on this matter. Please feel free to contact me with any questions.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee

Regulatory and Legislative Affairs Manager

ASL: jy
cc: Service List

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. G-011/M-15-992

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 1st of December, 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 1st day of December, 2016.

/s/ Kristin M. Stastny
Kristin M. Stastny

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