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April 27, 2015

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

Re: In the Matter of the Report of Minnesota Energy Resources Corporation on the Merger of Wisconsin Energy Corporation and Integrys Energy Group, Inc.
Docket No. G011/PA-14-664

Dear Mr. Wolf:

Minnesota Energy Resources Corporation ("MERC") respectfully submits its Reply Comments on Proposed Conditions.

By copy of this letter all parties of record have been served.

Very truly yours,

Briggs and Morgan, P.A.

/s/ Michael C. Krikava

Michael C. Krikava

MCK/rlr

Cc: Service list

CERTIFICATE OF SERVICE

IN THE MATTER OF MERC 011 – REPORT OF MERC ON THE MERGER OF WISCONSIN ENERGY CORPORATION AND INTEGRYS ENERGY GROUP, INC.

MPUC DOCKET NO. G011/PA-14-664

Roshelle L. Herstein hereby certifies that on the 27th day of April, 2015, she served copies of **MERC'S REPLY COMMENTS ON PROPOSED CONDITIONS** by posting the same on www.edockets.state.mn.us. Said document is also served via U.S. Mail or e-mail as designated on the attached Official Service List on file with the Minnesota Public Utilities Commission in the above-referenced docket.

s/Roshelle L. Herstein
Roshelle L. Herstein

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STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Report of Minnesota Energy Resources Corporation on the Merger of Wisconsin Energy Corporation and Integrys Energy Group, Inc.	Docket No. G011/PA-14-664

MERC'S REPLY COMMENTS ON PROPOSED CONDITIONS

I. INTRODUCTION

Minnesota Energy Resources Corporation ("MERC" or the "Company") provides the Minnesota Public Utilities Commission ("Commission") with this Reply to the Comments of the Minnesota Department of Commerce – Division of Energy Resources[1] ("Department") and the Office of the Attorney General – Residential Utilities and Antitrust Division[2] ("OAG") on potential conditions to attach to approval of the Wisconsin Energy Corporation ("WEC") and Integrys Energy Group, Inc. ("Integrys") merger ("Proposed Transaction").

As a preliminary matter, we are pleased to report that the Michigan Public Service Commission ("Michigan PSC") approved the Proposed Transaction on April 23, 2015 by approving the Amended and Restated Settlement Agreement in Michigan and finding that the

[1] *In the Matter of the Report of the Minnesota Energy Resources Corporation on the Merger of Wisconsin Energy Corporation and Integrys Energy Group, Inc*., Docket No. G011/PA-14-664 ("*Integrys/WEC Merger*"), Comments of the Minnesota Department of Commerce Division of Energy Resources (Apr. 20, 2015) ("Department Comments").

[2] *Integrys/WEC Merger*, Comments of the Office of the Attorney General – Residential Utilities and Antitrust Division (Apr. 20, 2015) ("OAG Comments").

merger is in the public interest.[3] This approval is entirely consistent with MERC's prior description of the Michigan proceedings. A copy of the Michigan order approving the settlement agreement is attached as Attachment B. In addition, we previously reported that the Federal Energy Regulatory Commission ("FERC") approved the merger on April 7, 2015. A copy of the FERC approval was previously submitted into this record.

MERC appreciates the thorough and collaborative effort of both the Department and the OAG in narrowing the range of conditions for Commission consideration. MERC also appreciates that both the Department and the OAG recognize the benefits of the Proposed Transaction and recommend the Commission approve the Proposed Transaction.[4] Additionally, MERC agrees with the Department that the merger should not be burdened with rate freezes, bill credits, earnings caps, or dividend restrictions.[5]

As discussed in this Reply, the Commission has a robust record from which it can find that the Proposed Transaction is consistent with the public interest without the need for the additional conditions proposed in both the Department's and the OAG's April 20 comments. If the Commission determines that conditions for its approval of the Proposed Transaction are warranted, MERC continues to support those conditions it has proposed throughout this Docket:

- MERC will not request to recover the acquisition costs or any acquisition premium of the Proposed Transaction from Minnesota ratepayers;
- MERC will honor all existing labor contracts;

[3] *In the Matter of the Joint Application of Wisconsin Energy Corporation and Integrys Energy Group, Inc. for Approval, Pursuant to MCL 460.6q, for the Transfer of Control of Wisconsin Public Service Corporation and Michigan Gas Utilities Corporation; and the Joint Request of Wisconsin Public Service Corporation, Michigan Gas Utilities Corporation and Wisconsin Electric Power Company for Waivers From, or Declarations Regarding the Applicability of, the Code of Conduct and Affiliate Transaction Guidelines and Related Approvals*, Case No. U-17682, Order Approving Amended and Restated Settlement Agreement (Apr. 23, 2015).

[4] Department Comments at 5; OAG Comments at 15.

[5] Department Comments at 3-4.

- There will be no workforce reductions at MERC as result of the Proposed Transaction, except through normal attrition; and
- MERC will maintain its current level of charitable contributions and community involvement after the closing of the Proposed Transaction.[6]

Further, in discussions with the Department and the OAG, MERC has agreed to accept a set of consensus conditions arising from the other states.[7] These additional conditions represent the only additional conditions that are appropriate and can be supported by the record.[8]

In this Reply, MERC addresses the Department's and OAG's proposed additional conditions and explains why these additional conditions are unnecessary and unsupported. The conditions MERC has already agreed to are more than adequate to fully protect the interests of Minnesota ratepayers and support a finding that the Proposed Transaction is consistent with the public interest. Further, the Commission already possesses plenary authority over MERC and fully regulates the areas addressed in the Department's and the OAG's proposed new conditions. Adding the additional conditions proposed by the Department and the OAG would unduly burden MERC and could, in some instances, operate contrary to ratepayers' interests.

II. APPLICABLE STANDARD

The Commission's decision in this matter should be informed by the applicable legal standard and the record developed to satisfy that standard. Minn. Stat. § 216B.50 authorizes the Commission to approve the merger if its finds that the proposed transaction is "consistent with

[6] *Integrys/WEC Merger*, Petition at 8, 11, 17 (Aug. 6, 2014).

[7] *See Integrys/WEC Merger*, MERC Update on the Wisconsin Energy Corporation and Integrys Energy Group, Inc. Merger at Attachment A (Apr. 3, 2015).

[8] For the Commission's convenience, MERC has included Attachment A to the MERC April 3 filing for reference and respectfully suggests that this list constitute the set of conditions that could be imposed. Note that we have modified that list slightly by revising original condition 73 to reflect MERC's actual operating practices over the past several years, as described in Section IV(A) below.

the public interest."[9] "This standard does not require an affirmative finding of public benefit, just a finding that the transaction is compatible with the public interest."[10] This standard provides important guidance on which conditions would be appropriate and which would go beyond ensuring that the transaction is "consistent with" the public interest.

For example, any condition imputing mandatory ratepayer savings would be inconsistent with the applicable standard. Contrary to the OAG's suggestion,[11] under the "consistent with the public interest" standard, there is no obligation to artificially impose savings to offset shareholder value. As the Minnesota Supreme Court has held, utility assets belong to the utility, not to ratepayers; it exceeds statutory authority to impute corporate value to ratepayers.[12] Further, the OAG's demand for ratepayer concessions under these circumstances is contrary to

[9] Minn. Stat. § 216B.50 (2014).

[10] *In the Matter of the Proposed Merger of Minnegasco, Inc. with and into Arkla, Inc.*, Docket No. G-008/PA-90-604, Order Approving Merger and Adopting Amended Stipulation with Modification, at 2 (Nov. 27, 1990); *see also In the Matter of the UtiliCorp United Inc.'s Request for Approval of a Proposed Merger between UtiliCorp and St. Joseph Light & Power Co.*, Docket No. G-007, 011/PA-99-700, Order Approving Mergers Subject to Conditions, at 3 (Dec. 7, 1999).

[11] OAG Comments at 7.

[12] *Minnegasco, a Division of NorAm Energy Corp. v. Minnesota Public Utilities Commission*, 549 N.W.2d 904, 909 (Minn. 1996):

> [R]atepayers are no different … than any consumer who purchases a product from a business. The simple act of purchasing a product or service from a business does not mean that the consumer becomes an owner of any of the business' assets. Nor does it mean that the consumer bears the cost of creating good will. The relationship between the ratepayer, as a consumer, and the gas utility, as a business, does not change just because the gas utility provides regulated utility services. The ratepayer remains a consumer and the assets remain the property of the utility.

In other words, the "consistent with" standard creates no basis to coerce concessions not otherwise supported.

law.[13] Closely analogous precedent shows that the OAG's position is flawed and the imposition of such conditions would be inconsistent with Commission practice.[14]

MERC submits that the Proposed Transaction easily satisfies the relevant legal standard. Indeed, the record supports a finding that the transaction is affirmatively in the best interests of Minnesota ratepayers whether or not any conditions are imposed. Once the Proposed Transaction is consummated, MERC will be both a financially and operationally stronger utility. While the conditions listed in Attachment A are reasonable, imposing additional conditions such as coerced ratepayer "savings" or arbitrary financial or operational limitations would be inconsistent with the applicable standard and are not supported by the record.

The remainder of this Reply responds to the specific additional conditions recommended by the Department and the OAG.

III. RESPONSE TO THE DEPARTMENT'S COMMENTS

The Department prepared a classification scheme of the conditions similar to the one submitted by MERC.[15] Overall, the Department determined that there were 145 proposed

[13] In *Peoples Natural Gas Co. v. Minnesota Public Utilities Commission*, 369 N.W.2d 530, 534 (Minn. 1985), the Court found that the Commission is a creature of statute that must implement its powers within the specific authority delegated to it by the legislature. The *Peoples Natural Gas* court specifically found that the Commission lacks statutory authority to undertake any action based on the general belief that the action would be "just and reasonable."

[14] In *Luger v. City of Burnsville*, 295 N.W.2d 609, 614 (Minn. 1980), the Minnesota Supreme Court rejected a city's attempt to impose conditions to a zoning permit that were outside of its legal authority. Further, in a series of cases involving Nobles County, the courts rejected the regulatory body's attempt to impose permitting conditions that went beyond the County's lawful authority. *See Interstate Power Co., Inc. v. Nobles Cnty. Bd. of Comm'rs*, No. C5-97-1704, Slip op. *1 (Minn. Ct. App. 1998)(court rejects county's attempt to extract a "fee" from utility as an unlawful hidden tax beyond County's police power). Ultimately, after several more years of litigation, the Minnesota Supreme Court recognized that granting a permit with a known unacceptable condition constitutes a de facto denial of the permit. *Interstate Power Co., Inc. v. Nobles Cnty. Bd. of Comm'rs*, 617 N.W.2d 566, 577-580 (Minn. 2000). Finally, and most significantly, in *MediaOne Group, Inc. v. County of Henrico*, 97 F. Supp.2d 712, 717 (E.D. Va. 2000), *affirmed* 257 F.3d 356 (4th Cir. 2001), the Court found this type of permit condition to be ultra vires and invalid.

[15] Department Comments at 2.

conditions in other jurisdictions and that 82 of those are inapplicable to this proceeding.[16] MERC agrees. The Department also concluded that 30 of the remaining 63 conditions are already covered by operation of Minnesota law or are expressly or substantially addressed within the list of conditions MERC already agreed to in this proceeding.[17] Once again, MERC agrees. The Department noted that of the remaining 33 conditions, MERC has agreed to 23 of them, and that eight of the remaining conditions should not apply.[18] This leaves two disputed conditions from the list and the Department proposes one additional condition. MERC opposes these three conditions as explained later in this section of its Reply Comments.

The Department recommends the Commission ***not*** adopt conditions from other jurisdictions that would result in rate freezes, bill credits, earnings caps, or dividend prohibitions or restrictions on MERC.[19] MERC agrees. The Department correctly recognizes that both rate freeze and earnings cap conditions are unnecessary because MERC has indicated that it will be filing a rate case this year due to its newly acquired gas assets.[20] The Department also acknowledges that a condition requiring MERC to make a filing to extend any potential benefits to its ratepayers from conditions proposed in non-Minnesota state jurisdictions is unnecessary because the process the Parties are currently undertaking inherently results in this outcome.[21] MERC agrees. Last, the Department does not recommend placing dividend restrictions on MERC because such restrictions are too complicated, but instead recommends capping service

[16] *Id.*

[17] *Id.*

[18] *Id.* at 3-4.

[19] *Id.*

[20] *Id.* at 4.

[21] *Id.*

company costs.[22] While it does not agree with capping service company costs, MERC does agree with rejecting restrictions on dividends as a condition for approval of the Proposed Transaction as such condition is unnecessary and would be unreasonably burdensome.

MERC appreciates the Department's thoughtful consideration and recommended denial of these conditions. MERC shares the Department's view that these conditions go beyond the "consistent with the public interest" standard.

The Department goes on to propose three additional conditions for the Commission's consideration. MERC respectfully disagrees with the Department on these three items and urges the Commission not to adopt them, as described below.

A. Conditions Related to Credit Downgrades are Unnecessary and Unworkable.

The Department recommends two conditions related to potential credit degradation of the holding company and/or nonutility affiliates of MERC. The Department recommends:

> (1) The Commission will deny MERC recovery of increased financing costs due to any rating agency downgrades in any subsequent general rate proceeding for the first three years after the merger; and
>
> (2) Any increased capital costs determined by the Commission to be related to downgrading or other credit degradation of the holding company and/or nonutility affiliates should be removed from the cost of capital for MERC.[23]

MERC opposes these conditions because they are unnecessary and could adversely affect ratepayers. First, it is important to note that since the announcement of the Proposed Transaction, no credit ratings agencies have downgraded the ratings of WEC or any of its

[22] *Id.*

[23] *Id.* at 5.

affiliates.[24] Indeed, the financial markets have, overall, reacted positively to the Proposed Transaction.[25] Integrys's senior unsecured rating was actually upgraded on news of the Proposed Transaction.[26]

Ironically, if these conditions are imposed, they could result in the very type of future downgrade that the Parties seek to prevent.[27] The credit rating of a utility holding company is partially based on a supportive regulatory environment.[28] Likewise an unsupportive environment can have adverse consequences on the holding company's credit. Thus, MERC urges that the Commission remain neutral and not impose conditions that could affect the capital markets.

Additionally, the Department's proposed conditions are not tied to the Proposed Transaction. There could be other completely unrelated factors that could lead to a credit downgrade of MERC's corporate parents. If a downgrade were to occur, it would be highly fact-intensive to determine the potential factors contributing to such a downgrade and then to determine how much of any increased borrowing cost is due to any one particular contributing factor. That is an inquiry that would need to be made at the time and based on the record developed under the circumstances. It would be speculative and inconsistent with the public interest to impose these types of blanket conditions related to MERC's cost of debt under the guise of reviewing the Proposed Transaction.

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[24] *Application of Wisconsin Energy Corporation for Approval of a Transaction by which Wisconsin Energy Corporation Would Acquire All of the Outstanding Common Stock of Integrys Energy Group Inc*., Docket No. 9400-YO-100, Rebuttal Testimony of Scott Lauber in Support of Application by Wisconsin Energy Corporation (Wisconsin PSC Jan. 26, 2015). MERC notes that MERC itself is not independently rated by credit ratings agencies and that it obtains all of its capital from its holding company parent and will continue to do so after the Proposed Transaction closes.

[25] *See Rating Action: Moody's upgrades Integrys Energy to A3; outlook stable*, Moody's Investor Services, Sept. 18, 2014. The Moody's report is attached as Attachment C.

[26] *Id.* at 1.

[27] *Id.*

[28] *Id.*

Last, the Commission retains full control over the impact of any changes in MERC's cost of debt on Minnesota ratepayers. Through both the rate case process and the requirements of Minn. Stat. § 216B.49, should MERC's future cost of debt increase and it seek to recover these increased costs from ratepayers, it would need to bring its request to the Commission prior to doing so. Therefore, the Commission would have the ability to develop a record to determine the justness and reasonableness of any increased cost of debt at that time, making the Department's proposal untimely and superfluous.

B. Restricting the Cost of Business Services is Not Supported by the Record.

The Department also recommends that the Commission adopt a new condition that costs allocated or assigned from Integrys Business Support, LLC ("IBS") cannot increase above the level approved in MERC's most recent general rate case for ratemaking purposes for the first three years after the execution of the Proposed Transaction:

> (3) Costs allocated or assigned from IBS, or its successor, cannot increase above the level approved in MERC's most recent general rate case (Docket E-011/GR-13-617) for rate-making purposes for the first three years after the Proposed Transaction is executed.[29]

The Department proposes this condition because it is concerned that the cost of these services may increase when IBS is replaced with WEC Business Services.[30] MERC opposes this condition; the Commission retains full authority to address such an issue if it arises in the future.

Importantly, under Minn. Stat. § 216B.48, subd. 3, MERC must seek Commission approval of any affiliated interest agreement it may enter into with WEC Business Services. As described throughout this proceeding, after closing the Proposed Transaction, MERC will file the new administrative services agreement with the Commission to seek approval of the new

[29] *Id.* at 5.

[30] *Id.*

allocations.[31] The approval process of the affiliated interest agreement will give the Commission the full opportunity to scrutinize the agreement and ensure that the proposed allocations are reasonable and appropriate. In addition, the outcome of this proceeding can then be further reviewed through the rate case process should any of MERC's costs increase.

The Department's proposed condition is also impractical and is too broad. There may be instances where costs allocated from WEC Business Services could increase for reasons unrelated to the Proposed Transaction:

- For example, MERC's recent acquisition of Interstate Power and Light's ("IPL") retail gas distribution business will increase the number of MERC's customers and, therefore, MERC's total size.[32] This could have the effect of increasing MERC's total business services costs as MERC will be a larger utility in Minnesota.

- A second example is that, under the current IBS Services Agreement, MERC's benefits cross charges could increase due to the IPL transaction and associated increase in employees at MERC. The Company would expect this to be the case regardless of whether the Proposed Transaction is approved or not.

- A third example is that costs associated with the Integrys Customer Experience Project, under which MERC will transition from its current Customer Information System technology platform to a new platform, will increase overall costs, although such costs are unrelated to the Proposed Transaction. Freezing MERC's current costs of business services would not allow the effects of these types of changes in its business -- which would ultimately benefit MERC's customers – to be reflected in its cost of service.

- Finally, general inflation or other increases to the cost of service having nothing to do with the Proposed Transaction could lead to higher business service costs to MERC merely for operating a gas utility. Benefit costs, labor loaders, and other general costs of operating a utility may increase due to the business climate and would be appropriately included in MERC's cost of service.

[31] *Integrys/WEC Merger*, Petition, at 12.

[32] *In the Matter of a Request for the Approval of the Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Minnesota Energy Resources Corporation*, Docket No. G-001, G-011/PA-14-107, Order Approving Sale Subject to Conditions (Dec. 8, 2014).

Because the Commission retains ongoing authority to review these costs when MERC seeks a rate increase to recover them, the Department's proposed condition is unnecessary and could harm MERC for reasons unrelated to the Proposed Transaction.

IV. RESPONSE TO THE OAG'S COMMENTS

Like the Department, the OAG recommends approval of the Proposed Transaction with additional conditions. MERC does not agree with the OAG's recommended conditions and requests that the Commission deny them.

A. The OAG's Rewritten Conditions Do Not Accurately Reflect the Record.

In its Comments, the OAG submits a list of conditions that it states are a rewritten list of conditions that the Parties have agreed are applicable from other jurisdictions.[33] While MERC appreciates the OAG's attempt to streamline the agreed-upon conditions, the Company prefers that the list of conditions submitted by MERC or the Department be used by the Commission. Using the original conditions discussed by the Parties will prevent any unnecessary complications that may result from changing the wording of the conditions after the Parties have already considered and discussed the original language. This will also prevent having inconsistent conditions across jurisdictions.

The OAG's effort uncovered one condition -- 73 -- upon which there clearly has not been a meeting of the minds, which could have an unintended adverse consequence for ratepayers. While MERC does not agree with the OAG's approach, the Company appreciates that this process provided it the opportunity to clarify one of the conditions.

Condition 73 set forth on Attachment A would create a commitment concerning intercompany borrowing. The OAG rewrites Condition 73 to state: "14. MERC shall not loan

[33] OAG Comments at 2-5.

funds or borrow funds from its post-acquisition parent or other regulated subsidiaries. (Condition 73)."[34] On review of Attachment A, the Company recognizes that its discussion of Condition 73 was unclear and failed to ensure that current intercompany borrowing (which is at advantageous rates) can continue. MERC respectfully suggests that the language of this condition be modified slightly as we have suggested in Attachment A to this Reply.

MERC understands the importance of regulating intercompany borrowing and is not opposed to the concept described in Condition 73. However, this condition should reflect that MERC will maintain any separate credit facilities to the extent they existed prior to approval of the Proposed Transaction. This amendment is necessary to reflect the fact that MERC currently does not have its own separate credit facility, but is able to borrow from the Integrys holding company under inter-company loan agreements. This same issue existed with one of the Illinois utilities that also relies on borrowing from the parent rather than through third parties.

As a result, MERC suggests modifying Condition 73 in Attachment A to ensure that ratepayers can continue to take advantage of corporate borrowing as it has done in the recent past: "Prohibit MERC from loaning funds to or borrowing funds from post-acquisition parent or other regulated subsidiaries except to the extent that such borrowing arrangements existed prior to approval of the Proposed Transaction." This clarification is important because MERC has historically borrowed from Integrys pursuant to an affiliated interest agreement, as approved in Docket No. G-007,011/AI-09-1108.[35] It has done so to take advantage of Integrys' lower cost of short term borrowing. It is in ratepayers' interest to preserve this borrowing arrangement.

[34] *Id.* at 4.

[35] *See In the Matter of the Annual Capital Structure Filing of Minnesota Energy Resources Corporation and Request for Approval of Affiliated Interest Agreement*, Docket No. G-007, 011/AI-09-1108, Order Approving Affiliated Interest Borrowing Agreement (Apr. 20, 2010).

Further, the OAG's proposed intercompany borrowing condition could have significant consequences on MERC's operations and customers. Due to MERC's historic reliance on funds from Integrys, and the high likelihood that MERC will rely on borrowing from its corporate parent after the Proposed Transaction is closed, the OAG's proposed condition would likely require MERC to needlessly incur higher costs of debt. It would be contrary to ratepayers' interests to prohibit MERC from borrowing funds from WEC if it can do so at rates more favorable than MERC could obtain seeking its own credit facility. It is not in the ratepayers' interest to arbitrarily prohibit MERC from continuing to have access to its traditionally lower cost source of corporate funds needed to operate its business.

B. Restating Conditions Already Covered by Minnesota Law is Unnecessary.

During the Parties' discussions, it became clear that many of the proposed conditions raised in other state proceedings were unnecessary due to the Commission's oversight authority provided for by Minnesota law. Rather than seek to mold conditions proposed under other states' legal schemes to fit Minnesota's regulatory structure, the discussions acknowledged that such conditions were unnecessary due to the Commission's authority over various aspects of MERC's operations under Minnesota law. In its comments, the Department agrees that it is unnecessary to restate MERC's ongoing obligation to comply with the law.[36]

Nevertheless, the OAG recommends the Commission adopt seven conditions that the Parties agree are already covered by law.[37] MERC is concerned that the OAG's proposed conditions, while intended only to restate the Commission's authority, may be interpreted in the future to impose additional substantive burdens on MERC.

[36] Department Comments at 2.

[37] OAG Comments at 5-6.

Specifically, the OAG recommends the following conditions be imposed:

> Condition 46. Regardless of whether a Commission review is performed, the cost of any acquisition condition from another jurisdiction subsequently found to have an adverse cost impact on Minnesota shall be absorbed by WEC Energy without recourse to, or reimbursement by, MERC.
>
> Conditions 82, 121. All books and records of all entities in the corporate structure, including the service company, shall be readily available for the Commission and Department staff review in a reasonable manner, subject to approval by the Commission.
>
> Condition 122. If, in the future, Wisconsin Energy Group or its subsidiaries are down-sized in any significant way, the absolute cost allocation to MERC shall not increase unless the Petitioners demonstrate that the cost allocation is just and reasonable.
>
> Condition 129. The Commission shall have approval authority over allocation methodology and factors. If the allocation methodology and factors ultimately approved by the Commission differ from those approved in other jurisdictions, the holding company should absorb any cost differentials.
>
> Condition 104. Commission staff shall review MERC's Low Income Programs in future rate cases, to ensure that the programs continue to produce optimal benefits.
>
> Condition 135. MERC shall not defer transition costs.
>
> Conditions 139, 140. For severance and/or early termination costs the Petitioners shall provide detailed information in any rate proceeding on each instance of severance and/or early termination, including the position, the reasoning, the costs and savings, etc., in sufficient detail for the Commission to make a determination on whether the cost is an unrecoverable transaction cost or a transition cost.[38]

These restrictions are unnecessary and are likely to impose an unreasonable burden on MERC. Under Minnesota law, the Commission possesses the general authority to regulate the situations implicated by each of these conditions.

[38] *Id.*

For example, the Commission retains plenary authority, in a MERC rate case, to review any costs of the Proposed Transaction due to the imposition of conditions in other states (Condition 46). Should MERC seek to recover these costs because it believes they are just and reasonable, MERC bears the burden in a rate case to make this showing. Providing a blanket prohibition at this time limits the Commission's authority to review these costs at some future time and makes judgments now that are not necessary for the Commission to approve the Proposed Transaction.

Another example is Condition 129. The Commission also retains plenary authority to review cost allocation factors. Rather than restate the Commission's authority in its proposed condition, the OAG seeks to impose a further substantive requirement in its proposed condition by limiting MERC's ability to request to alter allocation factors if circumstances warrant. This prejudges the justness and reasonableness of allocation factors without a record to support the specific reasons underlying any such adjustment. Under Minnesota law, the Commission may accept or reject any changes to allocation factors and MERC recognizes this authority. However, the Commission should have a full and complete record on the specific facts and circumstances underlying any change to an allocation factor instead of making a blanket determination in this proceeding based on the OAG's conjecture.

Further, to the extent the OAG is intending not merely to restate applicable legal requirements but to impose further restrictions above and beyond what is required by Minnesota law, such additional conditions are unreasonable and unnecessary for the Proposed Transaction to meet the "consistent with the public interest" standard.

C. The OAG's Proposal to Limit the Recovery of Transition Costs Is Inappropriate.

Much like the OAG's proposal to restate the Commission's authority, MERC is similarly concerned with the OAG's proposal for the treatment of transition costs. MERC has stated throughout this proceeding that transition costs are appropriately reviewed through a rate case. A rate case is a more appropriate proceeding to address transition costs because the actual costs will be known, the potential benefits (both monetary and operational) will have been analyzed, and MERC will bear the burden to show that these costs are just and reasonable. Rather than defer to the Commission's authority, the OAG's proposed condition seeks to make a blanket determination now:

> MERC may request recovery of transition costs if and only to the extent that MERC can demonstrate that the transition costs produce acquisition-related savings that are greater than the transition costs.[39]

That said, MERC agrees with the essence of such a condition. MERC expects the acquisition related savings to accrue over five to ten years following completion of the Proposed Transaction, and a rate case would afford the Commission the ability to judge the acquisition related savings over time. Further, transition costs incurred today may result in benefits over time and a rate case is the proper opportunity to review those specifics. Additionally, the Proposed Transaction could result in many non-monetary benefits such as superior service and better infrastructure. Rate case review will again provide a better venue to evaluate them.

If the Commission decides it should impose such a condition, the Company recommends the condition state the following:

[39] *Id.* at 8.

> MERC may request recovery of transition costs if and only to the extent that MERC can demonstrate that the transition costs produce acquisition-related savings over time that are greater than the transition costs or result in operational benefits.

This alternative language would afford MERC the ability to demonstrate the savings over a period of time rather than immediately and would allow MERC's customers to capture the non-monetary benefits that the Proposed Transaction will produce.

D. The OAG's Proposed Dividend Restrictions and Capital Structure Conditions Are Not Supported.

The OAG proposes two new conditions related to MERC's issuance of dividends and the inclusion of debt in its capital structure:

> MERC will not issue dividends if doing so would cause it to be out of compliance with the capital structure approved by the Commission pursuant to Minnesota Statutes section 216B.49.
>
> MERC shall request and obtain Commission approval pursuant to Minnesota Statutes section 216B.48 and/or Minnesota Statutes section 216B.49 before it includes any debt provided by its parent companies in its capital structure.[40]

These conditions are inapplicable and should be rejected. As mentioned in its initial reply comments, MERC has previously been exempted from making annual Capital Structure filings pursuant to Minn. Stat. § 216B.49 until its capital structure includes encumbered property in Minnesota.[41] Should these historical circumstances change, MERC would be required to make a filing under Minn. Stat. § 216B.49 or through a rate case proceeding to seek Commission approval for these changes and the Commission would have an opportunity to consider the proposed capital structure at that time. Additionally, MERC has already agreed to submit a

[40] *Id.* at 10.

[41] *In the Matter of the Annual Capital Structure Filing of Minnesota Energy Resources Corporation and Request for Approval of Affiliated Interest* Agreement¸ Docket No. G-007,011/AI-09-1108, Order Approving Affiliated Interest Borrowing Agreement, at 4 (Apr. 20, 2010).

compliance report describing MERC's post-merger capital structures and identifying any capital structure adjustments that resulted from the Proposed Transaction.[42] Any additional conditions with respect to MERC's capital structure are unnecessary and inappropriate.

E. The OAG's Proposed Cost of Debt Condition is Unsupported.

Similar to the Department, the OAG proposes that the Commission hold Minnesota ratepayers harmless for any increased cost of debt that may occur for three years after the Proposed Transaction unless MERC can prove otherwise:

> If MERC's cost of debt increases during the next three calendar years, Minnesota ratepayers will be held harmless from any rate impact unless MERC can demonstrate that its increased cost of debt was not caused by the proposed transaction.[43]

MERC opposes this condition for all of the reasons discussed in Section III(A) above in regard to the Department's similar conditions.

Additionally, this particular proposed condition is impracticable because it would essentially require MERC to prove a negative – demonstrate that its increased cost of debt was *not* caused by the Proposed Transaction.[44] As discussed above, credit ratings are adjusted for a variety of reasons, some having to do with a company's financial metrics and others attributable to regulatory action or the larger economy. The current regulatory structure in which the cost of debt is examined by the Commission in the context of a rate case strikes the appropriate balance of permitting the Commission to examine the cost of debt without imposing an undue burden on the utility.

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[42] *See* Condition 50 in Attachment A.

[43] OAG Comments at 10.

[44] *In re Application of Hutchinson*, No. A03-99, 2003 WL 22234603 at *7 (Minn. Ct. App. Sept. 23, 2003) (citing *State v. Paige*, 256 N.W.2d 298, 304 (Minn. 1977)) (recognizing the legal impossibility of proving a negative).

F. Compelling Assumed and Arbitrary Cost Savings is Unsupported.

Finally, the OAG continues to maintain that the Commission should compel at least $2 million of ratepayer savings annually beginning in 2018.[45] As explained in the Company's previous filings, MERC opposes this condition because it is unsupported. As described throughout this proceeding, this transaction is not premised like other mergers on achieving immediate savings through cost-cutting measures. While we are hopeful that the Proposed Transaction may deliver non-fuel operations and maintenance ("O&M") savings over time, this is not the basis for the transaction and is not part of the public interest rationale for this transaction.

In any case, even if downstream savings are realized (as we certainly hope they may be), ratepayers will be the ultimate beneficiaries of those savings. As described in itsApplication, other recent mergers have seen three to five percent non-fuel O&M savings over a period of five to ten years based on economies of scale. To the extent such savings may ultimately be realized, they would be reflected in MERC's cost structure which would inure to ratepayers' benefit through lower rates and deferred rate cases.

The OAG's reliance on the conditions ordered by the Commission in the Northern States Power and New Century Energy ("Xcel Energy") merger to support this condition illustrates the OAG's flawed reasoning. Unlike the Proposed Transaction, the Xcel Energy merger was predicated, in part, on obtaining merger savings.[46] The Xcel Energy merger savings were overwhelmingly achieved through consolidating programs and staff reductions.[47] In contrast,

[45] OAG Comments at 14.

[46] *In the Matter of the Application of Northern States Power Company for Approval to Merge with New Century Energies, Inc. and Related Requests*, Docket No. E,G-002/PA-99-1031, Initial Application, at Attachment IV (July 28, 1999).

[47] *Id.* at Attachment IV-18 (stating that estimated staffing and programs savings was $1,035.9 million of the estimated $1,334.9 in total savings).

one of the conditions MERC has agreed to is that there will not be material workforce reductions for two years, except through normal attrition. This distinguishes this case from the Xcel Energy precedent. Obviously, a commitment to avoid layoffs is inconsistent with the notion that material ratepayer savings can be extracted.

V. CONCLUSION

MERC appreciates the opportunity to provide this Reply. As discussed herein, the conditions set forth in Attachment A are more than adequate to ensure the Proposed Transaction is consistent with the public interest. MERC respectfully requests that the Commission approve the Proposed Transaction by the end of May, 2015 to facilitate prompt closing of the transaction.

Dated: April 27, 2015

Respectfully Submitted,

/s/
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MINNESOTA ENERGY RESOURCES CORPORATION

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Attachment A

MERC Merger Conditions
Conditions Agreed to by the Parties

Attachment A (Amended)

MERC Merger Conditions
Conditions Agreed to by the Parties
April 27, 2015

Item[1]	Category	Condition	Proposed Language	State	WEC Comments and Conditions in State Proceeding	Applicability to Minnesota
	Commitments Made by MERC in its filings	Transaction Costs	MERC commits not to seek to recover in retail rates transactions costs incurred to execute the proposed transaction, or the acquisition premium paid by WEC to Integrys as part of the Proposed Transaction.	Minnesota	Agreed	Applicable to Minnesota
		Labor	MERC commits it will honor all labor existing contracts	Minnesota	Agreed	Applicable to Minnesota
		Workforce	MERC commits for a period of two years that it will not make any work-force reductions beyond what might occur through attrition.	Minnesota	Agreed	Applicable to Minnesota
		Community involvement	MERC commits to maintain historic levels of community and charitable involvement.	Minnesota	Agreed	Applicable to Minnesota
		Customer Service	MERC commits to maintain the same level of customer service after the Proposed Transaction.	Minnesota	Agreed	Applicable to Minnesota
	DOC Requested Conditions (taken from Reply Comments)	Acquisition Premium and Transaction Costs	MERC will not attempt to recover the acquisition premium or the costs of executing the proposed transaction from its utility customers.	Minnesota	Agreed	Applicable to Minnesota
		Service Quality	MERC will maintain or improve its existing service quality and reliability indices over the next two years.	Minnesota	Agreed with clarification that service quality issues caused by the merger should apply but non-merger-related service quality measures should not be included.	MERC commits to maintaining its service quality standards and to continue to provide relevant gas purchasing and demand entitlement information.
		Workforce	MERC will not make any material workforce reductions beyond what might occur through attrition for at least two years.	Minnesota	Agreed	Applicable to Minnesota
	OAG Requested Conditions	Binding Commitment	MERC agrees with the OAG's position that all of the commitments that MERC made in its Minnesota filings are binding.	Minnesota	Agreed	Applicable to Minnesota
	Conditions Proposed in Michigan, Wisconsin and Illinois					

[1] Corresponds to Item number in Attachment C.

Item[1]	Category	Condition	Proposed Language	State	WEC Comments and Conditions in State Proceeding	Applicability to Minnesota
10	Accounting	Proof of exclusion	Identify all transaction, transition, and acquisition premium costs in an accounting system.	Wisconsin	See Item 11	Applicable to Minnesota
11	Accounting	Proof of exclusion	After closing, and in any rate proceeding decided within six years after the Transaction closing, the Applicant shall provide proof that no transaction costs are included in historical expenses of the operating utility or in the determination of revenue requirement.	Wisconsin	Accepted	Applicable to Minnesota
12	Accounting	Proof of exclusion	Identify all transaction and transition costs in accounting system.	Wisconsin	See Item 11	Applicable to Minnesota
13	Accounting	Purchase accounting/Push-down accounting	Push-down accounting related to the Reorganization will only be used by the Wisconsin Operating Companies for financial reporting if required by Generally Accepted Accounting Principles (GAAP). Push down accounting related to the Reorganization will not be used by the Wisconsin Operating Companies for regulatory accounting or ratemaking purposes regardless of GAAP requirements.	Wisconsin	Accepted	Applicable to Minnesota
14	Accounting	Purchase accounting/Push-down accounting	Deny "push down" of acquisition premium and transaction costs for WEPCO and WPSC ratemaking purposes regardless of which entity records the costs, GAAP accounting requirements, and whether incurred before or after transaction closes.	Wisconsin	See Item 13[i]	Applicable to Minnesota
15	Accounting	Push- down accounting	Any accounting entries made to the books of MERC for push-down accounting related to the Reorganization shall be disregarded for ratemaking and regulatory reporting purposes.	Illinois	Accepted	Applicable to Minnesota
16	Accounting	Savings to ratepayers	Allocation of any savings resulting from the proposed reorganization shall flow through to ratepayers.	Illinois	Accepted	Applicable to Minnesota
49	Filings / Notice	Compliance report	MERC must file a semi-annual compliance report on the MPUC's e-Docket system in Docket No. 14-664, reporting the status of their progress on all conditions imposed by the Commission in this case until all conditions have been satisfied or MERC petitions the Commission and receive approval to cease such reporting requirement, whichever comes first.	Illinois	Accepted	Applicable to Minnesota with Conforming Language to Apply to Minnesota
50	Filings / Notice	Compliance report identifying capital structure	MERC shall file a compliance report in Docket No. 14-664 within 180 days after the close of the Reorganization, with a copy to the Department and OAG, that describes MERC's post-merger capital structures and identifies capital structure adjustments, if any, that resulted from the Reorganization, and, in the event that there are push-down accounting adjustments made to MERC's balance sheets as a result of the Reorganization, that MERC shall file a petition with the Commission seeking Commission approval of the fair value studies and resulting capital structures for MERC.	Illinois	Accepted	Applicable to Minnesota with Conforming Language to Apply to Minnesota

Item[1]	Category	Condition	Proposed Language	State	WEC Comments and Conditions in State Proceeding	Applicability to Minnesota
51	Filings / Notice	Filing of final agreement	MERC must provide to the Department and OAG and file on the MPUC's e-Docket system in Docket No. 14-0644 a copy of the signed, executed Final Agreement if there are any changes between the Interim Agreement and a Final Agreement.	Illinois	Accepted	Applicable to Minnesota with Conforming Language to Apply to Minnesota
52	Filings / Notice	Notice of transaction	MERC will file a notice in this proceeding on e-Docket, to be served in the normal course as other filings on the parties of record, informing the Commission and the parties when closing of the Transaction has occurred.	Illinois	Accepted	Applicable to Minnesota with Conforming Language to Apply to Minnesota
72	Financial	Money pool and guarantees	MERC shall not participate in money pools (i.e. an arrangement under which cash is shared between WEC Energy Group and its subsidiaries).	Wisconsin	Accepted	Applicable to Minnesota
73	Financial	Money pool and guarantees	Prohibit MERC from loaning funds to or borrowing funds from the post-acquisition parent or other regulated subsidiaries.	Wisconsin	Accepted, with clarification[ii]	Applicable to Minnesota although it will be stated as follows: Prohibit MERC from loaning funds to or borrowing funds from post-acquisition parent or other regulated subsidiaries except to the extent that such borrowing arrangements existed prior to approval of the Proposed Transaction.
97	Operations	Gas emergency response time	WPSC shall cooperate with Commission Staff on a study of WPSC's gas emergency response process. Within six months of the closing of the transaction, this study group will report back to the Commission.	Wisconsin	Accepted	MERC will provide Copy of Completed Report to parties.
99	Operations Filings / Notice	Implementation of the ICE Project	MERC shall notify the Commission if it develops any plans to implement part, or all, of the software developed through the ICE project, or some, or all, of the customer service policy changes proposed by MERC, within 30 days of the plan being developed, or at least 30 days prior to any customer service policy changes.	Wisconsin	Accepted, with clarification[iii]	Applicable to Minnesota
109	Operations	Pipeline Safety Management System	The Joint Applicants shall work with Staff to plan and develop a Pipeline Safety Management System for the Gas Companies during the two years after the close of the Reorganization.	Illinois	Accepted	MERC will provide Copy of Completed Report to parties.
110	Operations	Prohibition from guaranteeing obligations of nonutility affiliates	MERC shall be prohibited from guaranteeing any obligations of their nonutility affiliates.	Illinois	Accepted	Applicable to Minnesota
123	Service company	Effectiveness of affiliated agreements	The parent holding company or its subsidiaries shall not elect to have the FERC review pursuant to Section 1275 of EPACT 2005, 42 U.S.C. § 16462, the allocation of costs for goods and services provided by the service company, until the Commission has reviewed and taken action on the affiliated interest transactions and agreements associated with the service company of amendments thereto. If the Commission has not completed its review and approval within a reasonable time after the Commission determined an amendment to the service company agreement is complete, the entities may seek such FERC review after giving the Commission 60 days' prior written notice.	Wisconsin	Accepted	Applicable to Minnesota

Item[1]	Category	Condition	Proposed Language	State	WEC Comments and Conditions in State Proceeding	Applicability to Minnesota
124	Service company	Independent audit	An independent audit of the service company and its transaction shall be performed within two years after closing, and thereafter every three years. The Commission would select the auditor and have full control over the audit work (scope, supervision, etc.) with the audit product being a Commission product. MERC will be required to provide the Commission a list of all external audit firms the holding company system has contracts with, and would be billed for the audit cost.	Wisconsin	Unsettled	MERC to Provide Copy of Audit Report to Minnesota
125	Service company	Jurisdiction	The Commission shall as a condition of acquisition approval take continuing jurisdiction over the service company structure.	Wisconsin	Accepted	Applicable to Minnesota
134	Synergy savings	Tracking transition costs -- alternate	MERC shall be required to identify and track all acquisition-related transition costs incurred by the utility and allocated to in a manner that is readily reviewable and auditable by the Commission at a location within Wisconsin.	Wisconsin	Accepted	Applicable to Minnesota

[i] *See* Rebuttal Testimony of Scott Lauber in Support of Application by Wisconsin Energy Corporation (Lauber Rebuttal), at 4.
[ii] *See* Lauber Rebuttal, at 8-9, 15.
[iii] *See* Lauber Rebuttal, at 11-12.

Attachment B

Michigan Order Approving Amended and Restated Settlement Agreement

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of **WISCONSIN ENERGY CORPORATION** and **INTEGRYS ENERGY GROUP, INC.,** for approval, pursuant to MCL 460.6q, for the transfer of control of **WISCONSIN PUBLIC SERVICE CORPORATION** and **MICHIGAN GAS UTILITIES CORPORATION;** and the joint request of **WISCONSIN PUBLIC SERVICE CORPORATION, MICHIGAN GAS UTILITIES CORPORATION,** and **WISCONSIN ELECTRIC POWER COMPANY** for waivers from or declarations regarding the applicability of the code of conduct and affiliate transaction guidelines and related approvals.	)	Case No. U-17682

At the April 23, 2015 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John D. Quackenbush, Chairman
Hon. Greg R. White, Commissioner
Hon. Sally A. Talberg, Commissioner

ORDER APPROVING AMENDED AND RESTATED SETTLEMENT AGREEMENT

On August 6, 2014, Wisconsin Energy Corporation (WEC) and Integrys Energy Group, Inc. (Integrys), sought approval, pursuant to MCL 460.6q, for the transfer of control of Wisconsin Public Service Corporation (WPS Corp) and Michigan Gas Utilities Corporation (MGUC) from Integrys to WEC. In addition, WPS Corp, MGUC, and Wisconsin Electric Power Company (WEPCo) sought waivers from or declarations regarding the applicability of both the Code of

Conduct established in Case No. U-12134, and the Affiliate Transaction Guidelines approved in Case No. U-13470 as they relate to affiliate interest agreements to be entered into in connection with the transfers of control described above.[1]

A prehearing conference was held before Administrative Law Judge Sharon L. Feldman (ALJ) on August 29, 2014. The ALJ granted petitions to intervene filed by Fibrek, Tilden Mining Company, L.C., and Empire Iron Mining Partnership (collectively, the Mines), Citizens Against Rate Excess (CARE), Verso Paper Corporation[2] (Verso), and the Michigan Department of the Attorney General (Attorney General). The Commission Staff also participated in the proceedings.

On September 15, 2014, Cloverland Electric Cooperative (Cloverland) filed a petition for leave to intervene out of time. On September 22, 2014, the Joint Applicants filed an objection to Cloverland's petition to intervene. On September 23, 2014, the ALJ granted permissive intervention to Cloverland.[3]

On October 30, 2014, the ALJ granted the Attorney General's motion to modify the schedule in order for the parties to explore settlement discussions. As modified, the schedule requires the Commission to issue a final order by June 15, 2015.

On January 30, 2015, all parties, except for Cloverland, submitted a signed settlement agreement resolving all issues in the proceeding. Also on January 30, 2015, the Attorney General filed a motion requesting a revised schedule in the event that the settlement was contested. On February 12, 2015, Cloverland filed objections to the settlement agreement.

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[1] WEC, Integrys, WPS Corp, MGUC, and WEPCo are collectively referred to as the Joint Applicants.

[2] Effective January 7, 2015, Verso Paper Corporation changed its name to Verso Corporation.

[3] A delayed petition to intervene filed by the Environmental Law & Policy Center was denied by the ALJ at a prehearing conference conducted on December 15, 2014. *See,* 4 Tr 80.

On February 12, 2015, the Attorney General filed a motion to terminate Cloverland's permissive intervention. On February 17, 2015, the Joint Applicants filed a response in support of the Attorney General's motion. On February 18, 2015, Cloverland filed a response in opposition to the Attorney General's motion and a reply to the Joint Applicants. On February 19, 2015, the Attorney General filed a reply to Cloverland's response. The ALJ denied the Attorney General's motion at a hearing on February 20, 2015.

On February 23, 2015, the Joint Applicants and the Attorney General filed applications for leave to appeal the ALJ's ruling. On February 25, 2015, Cloverland filed a response opposing the applications for leave to appeal. On February 27, 2015, the Commission issued an order granting the Attorney General's and the Joint Applicants' appeals, but denying the relief requested.

Between February 20, 2015 and March 5, 2015, the parties submitted direct and rebuttal testimony on the issue of whether the Commission should approve the settlement agreement.

At an evidentiary hearing conducted on March 12, 2015, pursuant to a stipulation filed March 10, 2015, the ALJ admitted all pre-filed direct and rebuttal testimony and related exhibits regarding the contested settlement agreement.

On March 13, 2015, Joint Applicants, the Attorney General, the Mines, and the Staff submitted an Amended and Restated Settlement Agreement, which is appended to this order as Attachment 1. Paragraph 9 of the Amended and Restated Settlement Agreement provided that the January 30, 2015 settlement agreement was withdrawn. On March 20, 2015, CARE and Cloverland filed documents affirming their agreement with the Amended and Restated Settlement Agreement. Also on March 20, 2015, Fibrek submitted a statement of non-objection to the

Amended and Restated Settlement Agreement. On March 25, 2015, Verso filed its statement of non-objection to the Amended and Restated Settlement Agreement.[4]

In their application, the Joint Applicants explained the details of the proposed transactions at issue in this docket as follows:

Applicants

WEC is a Milwaukee, Wisconsin-based holding company. Two of its wholly-owned subsidiaries are WEPCo and Wisconsin Gas LLC (WG). WEC serves 1.1 million retail electric customers and 1.1 million retail natural gas customers through these subsidiaries. WEC, through itself and its subsidiaries, owns a 26.24% ownership interest in American Transmission Company LLC and ATC Management, Inc. (collectively, ATC).

WEPCo is the electric public utility subsidiary of WEC that provides retail electric service in Wisconsin and Michigan. WEPCo's Michigan service territory includes parts of the Upper Peninsula counties of Alger, Baraga, Delta, Dickinson, Gogebic, Houghton, Iron, Marquette, Menominee, and Ontonagon. WEPCo is not a participant in the proposed merger transaction, and its existing rates, terms, and conditions of service in Michigan will not be affected by the proposed merger transaction.[5] WEPCo is the owner and operator of the Presque Isle Power Plant (PIPP) in Marquette, Michigan.

Integrys is a Wisconsin corporation headquartered in Chicago, Illinois. It is a diversified energy holding company having regulated natural gas and electric utility operations in Illinois, Michigan, Minnesota, and Wisconsin. Integrys presently owns and operates six regulated natural gas and electric utilities that serve a total of 2.1 million customers in four states. Integrys currently has two wholly-owned subsidiaries, WPS CORP and MGUC, that operate as public utilities in Michigan. Previously, Integrys owned Upper Peninsula Power Company, an electric utility serving retail customers in the Upper Peninsula, which it sold to Balfour Beatty Infrastructure

[4] Verso indicated that its statement of non-objection does not mean that Verso has waived any objections it may have in subsequent proceedings to any proposal for, or the terms of, any rates, charges, acquisitions, divestitures, or other transactions requiring approval of the Commission or the Federal Energy Regulatory Commission (FERC) that may affect the rates, charges or terms of service applicable to Verso. Specifically, Verso added that wholesale power sales by the Plant (as such Plant is defined in the Amended and Restated Settlement Agreement) and all sales envisioned under Section 6g of the Amended and Restated Settlement Agreement will require prior rate approval of the FERC and may be subject to review under standards applicable to affiliate transactions.

[5] The Commission notes that WEPCo filed an application seeking approval of a special contract with the Mines on March 20, 2015. *See,* Case No. U-17862.

Partners, L.P. (Balfour) in 2014.[6] *See*, Case No. U-17564. Integrys also owns and operates Integrys Energy Services, Inc. (IES),[7] which provides retail gas and electric marketing to customers in 22 states across the northeast quadrant of the United States, and Trillium CNG, a provider of compressed natural gas fueling services. IES was licensed as an alternative electric supplier (AES) by the Commission's January 8, 2002 order in Case No. U-13245 (under the name WPS Energy Services, Inc.). IES's subsidiary, Integrys Energy Services Natural Gas, LLC, was licensed as an alternative gas supplier (AGS) by the Commission's April 13, 2010 order in Case No. U-16187. Additionally, Integrys has a 34.07% equity ownership interest in ATC.

WPS Corp, a wholly-owned electric and natural gas subsidiary of Integrys, is a Wisconsin corporation that has its principal office in Green Bay, Wisconsin. WPS Corp is engaged in the generation, purchase, distribution and sale of electric energy, as well as the transportation, distribution and sale of natural gas, in northeastern Wisconsin. WPS Corp also has approximately 14,295 electric and natural gas customers in and around the City of Menominee, Michigan. WPS Corp's retail electric and natural gas rates in Michigan are regulated by the Commission. Before the filing of the Joint Application, WPS Corp's last completed general electric rate case was Case No. U-15352,[8] and its last completed general natural gas rate case was Case No. U-8694. WPS Corp is a "jurisdictional regulated utility" as defined in § 6q(12)(b).

MGUC, a wholly-owned natural gas subsidiary of Integrys, has its principal office in Monroe, Michigan. MGUC's 166,000 retail customers are located in the southern and western portions of Michigan's Lower Peninsula. MGUC's retail natural gas rates are regulated by the Commission. MGUC's last general rate case was Case No. U-17273. MGUC qualifies as a "jurisdictional regulated utility" as defined in § 6q(12)(b).

The Transactions

On June 22, 2014, WEC and Integrys entered into an Agreement and Plan of Merger (Merger Agreement). The terms and conditions of the Merger Agreement as described in the application are set forth in proposed Exhibit A-2 that was an attachment to the pre-filed direct testimony of

[6] The Integrys/Balfour transaction closed August 14, 2014.

[7] On July 30, 2014, Integrys announced that it had entered into a definitive agreement with Exelon Generation Company, LLC (Exelon) to sell, and for Exelon to purchase, IES. This divestiture was expected to close no later than the first quarter of 2015. This transaction does not include the sale of IES's solar generation business.

[8] On October 17, 2014, WPS Corp filed a general electric rate case in Case No. U-17669. In a separate order issued today in that docket, the Commission approved a settlement agreement that resolves all issues in the case.

Scott J. Lauber.[9] Under the terms of the Merger Agreement, WEC will acquire 100% of the outstanding common stock of Integrys. In return, Integrys' shareholders will receive 1.128 WEC shares plus $18.58 in cash for each share of common stock of Integrys. The merger will be financed by WEC issuing new WEC stock and by WEC issuing $1.5 billion in acquisition debt, likely in the form of intermediate and long-term debt. Upon closing of the Merger Agreement, Integrys' shareholders will own 28% of the combined company. The overall WEC/Integrys transaction value is approximately $9.1 billion.[10]

With regard to the changes to the corporate structure of WEC and Integrys, the Merger Agreement provides for the merger to take place in two stages. In the first stage, Integrys will merge with a newly-formed wholly-owned subsidiary created by WEC, with Integrys being the surviving entity in the initial merger. Immediately thereafter, Integrys will merge into a second newly-formed wholly-owned WEC subsidiary (Second Subsidiary), with the Second Subsidiary being the surviving entity in that merger. After these actions,[11] the surviving entity will be a wholly-owned subsidiary of WEC, will stand in the shoes of Integrys, and will have all the current Integrys utility subsidiaries under it. Upon closing, if approved by WEC's shareholders, WEC will be renamed WEC Energy Group, Inc. All of WEC's current subsidiaries will continue to exist. WEC's organizational chart prior to the Merger Agreement and after consummation of the second merger are depicted in proposed Exhibits A-1 and A-4 to the pre-filed direct testimony of Mr. Lauber, which are appended to this order as Attachments 2 and 3, respectively.

[9] Mr. Lauber is Vice-President and Treasurer of WEC and Vice-President and Treasurer of its wholly-owned utility subsidiaries, WEPCo and WG.

[10] This valuation includes $5.8 billion for Integrys shares and $3.3 billion of assumed Integrys debt.

[11] The multi-step merger process is required to ensure that Integrys' shareholders maintain federal income tax-free status for the stock portion of the merger transaction.

Upon closing, WPS Corp and MGUC will become wholly-owned subsidiaries of the Second Subsidiary, and second tier subsidiaries of WEC. The currently effective rates, tariffs, and agreements for service of these two public utilities will not be affected by the merger, and they will continue to exist as corporate entities separate from each other and from WEPCo. Additionally, the merger will have no impact on WEPCo's retail rates for electric services, or on WEPCo's provision of safe, reliable and adequate service in Michigan. The merger will not result in the subsidization of any non-regulated activity of WEC or any of its affiliates through the regulated rates paid by WEPCo's customers, WPS Corp's Michigan customers, or MGUC's customers, nor will it impair their ability to raise necessary capital or maintain a reasonable capital structure. It is also represented that the merger will benefit the ratepayers through economies of scale that in the long run may result in volume procurement efficiencies for fuel purchasing. Likewise, the Joint Applicants believe that the merger could improve outage restoration times, energy efficiency, and low-income and conservation programs. Finally, they opine that customers may also benefit from the combined companies' larger, more diversified generation portfolio and purchasing capabilities.

The merger will also result in WEC's acquisition of various other non-jurisdictional subsidiaries and interests in other states. For example, upon closing WEC will own 60.31% of the membership interests in ATC.[12]

[12] In connection therewith, WEC has committed to the FERC that following the completion of the proposed transaction, WEC will independently vote only the 34.07% share of interests currently held by Integrys. The remainder of the interest will be voted in proportion to the way in which owners not affiliated with WEC or Integrys vote their shares. Also under Wis Stat §196.485(3m)(c)2, the Wisconsin law that established ATC, there is a requirement that at least four of directors of the management company have staggered four-year terms and be "independent" in the sense that they are not directors, employees, or independent contractors of a person engaged in the production, sale, marketing, transmission, or distribution of electricity or natural gas or of an affiliate of such a person.

The Joint Applicants explain that consummation of the proposed transaction will require many regulatory approvals. WEC and Integrys were required to make filings with the Public Service Commission of Wisconsin, the Illinois Commerce Commission, the Minnesota Public Service Commission, and the FERC with respect to the change in control of these entities as part of the proposed transaction.[13] Additionally, the Joint Applicants are seeking approvals from the Federal Trade Commission and the Antitrust Division of the Department of Justice as required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 USC § 18a. And, Integrys and WEC will need to receive authorization from the Federal Communications Commission to transfer control of private radio and microwave licenses under which they operate wireless telecommunications systems to support daily operations.

Code of Conduct and Affiliate Transaction Concerns

In its October 29, 2001 order in Case No. U-12134, the Commission adopted a Code of Conduct that sets forth standards governing transactions between jurisdictional regulated electric utilities and their unregulated affiliates.[14] The Code of Conduct applies to WEPCo, WPS Corp, and MGUC, all of which file annual Code of Conduct compliance reports with the Commission, and have been granted waivers from various Code of Conduct requirements. Additionally, by virtue of the March 12, 2003 order in Case No. U-13470, MGUC is subject to Affiliate Transactions Guidelines as is more fully set forth in Paragraph G of the settlement agreement approved by the March 12 order in that docket.

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[13] The FERC issued an order approving the merger on April 7, 2015, in Docket No. EC14-126-000. *See,* 151 FERC ¶ 61,015.

[14] The Commission may grant waivers from one or more provisions of the Code of Conduct where the granting of such a waiver will not inhibit the development of, or functioning of, competitive markets.

Paragraphs 21 through 29 of the application explain the types of business arrangements that will be relied upon after closing of the merger for the resulting corporate entity to transact business amongst and between the resulting regulated and unregulated subsidiaries. Some of these business arrangements will continue to use existing waivers of the Code of Conduct, while others will require new waivers. The Joint Applicants urge the Commission to grant WEPCo waivers from Sections IIB, IID, IIE, and IIIC of the Code of Conduct in connection with transactions under an affiliated interest agreement (AIA) with an Integrys subsidiary to be renamed WEC Business Support, LLC (WBS). The Joint Applicants also request a waiver of Sections IVA, IVB, IVC, and IVD of the Code of Conduct in connection with the sharing of customer information with WBS. The Joint Applicants assert that "such information shall not be shared with other non-regulated affiliates, entities or third-parties." Application, Paragraph 29. Further, the Joint Applicants request waivers of any other provisions of the Code of Conduct determined appropriate by the Commission in a manner that would be consistent with the terms and conditions adopted in the November 8, 2007 order in Case No. U-15325. Finally, because all services to be provided pursuant to the WEC Energy Group AIA will comply with the Code of Conduct, the Affiliate Transaction Guidelines of Case No. U-13470, or existing waivers, WPS Corp, WEPCo and MGUC seek a declaration that the waivers previously granted apply to the WEC Energy Group AIA and that no additional waivers are required; provided, however, that if the Commission determines that any additional waivers are required in connection with the WEC Energy Group AIA, that the Commission also grant those additional waivers.

The Settlement Agreement

The signatories to the Amended and Restated Settlement Agreement have agreed that the Merger Agreement satisfies the requirements under MCL 460.6q(7) and that the relief requested in the Joint Application, including the requested waivers associated with the Code of Conduct and the Affiliate Transaction Guidelines of Case No. U-13470, should be granted. They also specifically represent that the Amended and Restated Settlement Agreement is reasonable, prudent, in the public interest, and will aid in the expeditious conclusion of this case.

The provisions set forth in the Amended and Restated Settlement Agreement establish a number of conditions, terms, and pledges.[15] These conditions, terms, and pledges include:

a. WEPCo's agreement to not enter into a System Support Resource (SSR) agreement with Midcontinent Independent System Operator, Inc. (MISO) for the operation of PIPP so long as both Mines, if operational, remain full requirements customers of WEPCo until the earlier of: (i) the day the new, clean generation plant located in the Upper Peninsula of Michigan (Plant), discussed further below, commences commercial operations; or (ii) December 31, 2019.

b. WEPCo's agreement to continue to operate PIPP according to prudent utility practice, and to provide safe, reliable, and adequate electric service to all of WEPCo's Michigan retail customers.

c. An understanding that the retail rates for Michigan customers will not be increased as a result of the special contracts entered into between WEPCo and the Mines.

d. The agreement that WEPCo will make necessary capital investments in PIPP to continue operation of PIPP until the earliest of:
(i) December 31, 2019;

[15] MCL 460.6q(8) and (9) both allow the Commission to impose reasonable terms and conditions in approving a merger. MCL 460.6q(8) pertains to terms and conditions meant to protect the jurisdictional regulated utility. MCL 460.6q(9) pertains to terms and conditions meant to protect the customers of the jurisdictional regulated utility. A term or condition may be proposed by the Commission or by any party to the proceeding. A jurisdictional regulated utility may reject the terms and conditions imposed by the Commission and elect not to proceed with the transaction.

(ii) The new generation Plant described in Paragraph a.(i) commences commercial operation; or

(iii) An earlier retirement date of PIPP agreed to between WEPCo and the Mines.

With respect to WEPCo's planned capital expenditures for the PIPP, the Amended and Restated Settlement Agreement requires WEPCo to disclose them to the Staff. Further, WEPCo is required to limit such capital investments as much as is prudent. Additionally, WEPCo shall advise the Staff at least four weeks in advance if possible, but in urgent situations no later than seven days after the capital expenditure is made, of any capital expenditure or group of capital expenditures for a singular purpose of more than $5,000,000 not included in the original plan. The Amended and Restated Settlement Agreement also provides that the Michigan allocated revenues collected by WEPCo through the SSR agreements at issue in FERC dockets ER14-1242, ER14-1243, ER14-2860, and ER14-2862 shall be applied first to Michigan full requirements customer refunds, and then to offset capital expenditures, with any remaining SSR funds being put to any other permissible purpose.

e. If, notwithstanding Section 6.a. of the Amended and Restated Settlement Agreement, the Mines that are operational are full requirements customers of WEPCo, and WEPCo enters into a SSR Agreement for PIPP, WEPCo shall refund to all Michigan customers the amount of the new SSR paid by those customers per such SSR agreement within 10 days of WEPCo's receipt of such SSR payments from MISO. The Commission shall have the ability to audit these refunds.

f. If either the Tilden Mine or the Empire Mine, while being operational, chooses to participate in retail access service prior to the earliest of:

(i) December 31, 2019;

(ii) The date that the new Upper Peninsula Plant commences commercial operation; or

(iii) An earlier retirement date of PIPP agreed to between WEPCo and the Mines;

and WEPCo seeks an SSR agreement for PIPP, then the Mines shall reimburse all Michigan customers. The Amended and Restated Settlement Agreement provides that such reimbursement mechanism for Michigan customers of WEPCo shall be the net amount of the fixed PIPP SSR costs paid by those customers per such SSR agreement. WEPCo shall notify the Mines of the amount due to customers on a monthly basis during the life of the SSR agreement. The amount of fixed PIPP SSR costs shall be offset by those customers' allocated share of PIPP SSR revenues WEPCo receives. Such reimbursement shall occur within 10 days of notification by WEPCo of receipt of such payments, with the Mines making full payment to WEPCo. The Commission shall have the ability to audit these refunds.

g. WEC has made a binding commitment to be an investor in the new Upper Peninsula Plant by having WEPCo, or, if formed, its future Michigan-only utility do the following:

(1) At the option of the Mines, WEC will either: (i) make a minority interest equity investment in the Plant proposed by the Mines with potentially a third-party and agree to off-take an amount of energy equal to the Michigan jurisdictional non-Mine load of WEC's electric utility subsidiaries; or (ii) off-take an amount of energy equal to the Michigan jurisdictional non-Mine load of WEC's electric utility subsidiaries less WEC's current Michigan hydro-facility capacity (not to exceed 8 megawatts (MW)) without making a minority equity investment in the Plant. While such Plant is still in the planning process and the capabilities and terms are generally unknown, such investment will be on the same financial terms as the majority investor. WEC's Michigan subsidiaries will enter into a Power Purchase Agreement (PPA) or PPAs for energy from the Plant at a rate equal to the cost to serve non-Mine customers from the Plant, in full consideration of the reliability benefit of the new Plant, for a term equal to the contract term between the Mines and the potential third party. The agreement for this investment must be executed by July 31, 2016.

(2) If the agreement for the investment, described in Paragraph 6.g.(i) of the Amended and Restated Settlement Agreement, has not been executed by July 31, 2016, then WEC will either: (i) negotiate an agreement with the Mines to develop such Plant; or (ii) off-take an amount of energy equal to the Michigan jurisdictional non-Mine load of WEC's electric utility subsidiaries less WEC's current Michigan hydro-facility capacity (not to exceed 8 MW) without making a minority equity investment in the Plant. While the Plant is still in the planning process and the capabilities and terms are generally unknown, such investment will be on the same financial terms as the Mines. WEC's Michigan subsidiaries will enter into a PPA or PPAs for energy from the Plant at a rate equal to the cost to serve non-Mine customers from the Plant, in full consideration of the reliability benefit of the new Plant, for a term equal to the contract term between the Mines and the potential third party. The agreement for this investment must be executed by December 31, 2016.

(3) If the agreement for the investment, described in Paragraph 6.g.(ii) of the Amended and Restated Settlement Agreement, has not been executed by December 31, 2016, and it is reasonable and prudent and in the best interest of Michigan ratepayers, then WEC will construct, own and operate the Plant, if reasonable and prudent to do so and is in the best interest of Michigan ratepayers, as a Michigan only asset subject to the requirement that the Mines have previously signed an agreement to receive all their electric load from the Plant, for a period of 10 years, beginning January 1, 2020. In this event, the Mines agree to enter into such an agreement with WEC (or its

successor). If WEC and the Mines are unable to agree to a rate, or any other term of service in the agreement, the Commission shall have the authority to resolve the dispute under a just and reasonable standard.

For (1) through (3) above, the investment and PPA are subject to the issuance of a certificate of necessity under all subsections of MCL 460.6s(3) assuring that if granted WEC's investment and/or its Michigan-only utility's investment in and the cost of the Plant and/or PPA will be fully recovered through Michigan retail rates, if just and reasonable. WEC further agrees to the creation of a Michigan-only jurisdictional utility to facilitate its long-term solution, if reasonable and prudent, with timing to be determined with the Commission. All investment and costs associated with the Plant would be allocated to the Michigan jurisdictional utility and would not require approval by the Public Service Commission of Wisconsin.

h. WEC and WEPCo agreed that they shall advocate within ATC to ensure that studies regarding the necessary configuration of the Plant in order to replace PIPP from a transmission planning point of view proceed fairly and expeditiously.

The Amended and Restated Settlement Agreement is also conditioned on the Commission's approval of the special contracts entered into between WEPCo and the Mines dated March 12, 2015, approval of which is being sought in Case No. U-17862.[16] It is further agreed that the Amended and Restated Settlement Agreement is reasonable, prudent, in the public interest and will aid in the expeditious conclusion of this case.

The parties have provided in the Amended and Restated Settlement Agreement that the Commission may not approve the Merger Agreement unless it approves the Amended and Restated Settlement Agreement without any modifications. The parties have indicated that if the Commission were to reject or modify the Amended and Restated Settlement Agreement or any of its provisions, then "the Amended and Restated Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose." Paragraph 13. The signatories have also indicated that the provisions of the Amended and

[16] In a separate order issued today in Case No. U-17862, the Commission approved the special contract between WEPCo and the Mines.

Restated Settlement Agreement are not severable because each separate provision "is dependent upon all other provisions … [and] … [f]ailure to comply with any provision of the Amended and Restated Settlement Agreement constitutes failure to comply with the entire Amended and Restated Settlement Agreement." Paragraph 13. Finally, the Amended and Restated Settlement Agreement states that the parties agreed that Section 81 of the Administrative Procedures Act of 1969, MCL 24.281, is waived as it applies to this proceeding, if the Commission approves this Amended and Restated Settlement, and that none of them will challenge the Commission's approval of the Amended and Restated Settlement Agreement.

Discussion

The Legislature authorized the Commission to approve mergers and acquisitions of public utilities through passage of 2008 PA 286 that added MCL 460.6q. Section 6q(1) of Act 286 provides that " [a] person shall not acquire, control, or merge, directly or indirectly, in whole or in part, with a jurisdictional regulated utility nor shall a jurisdictional regulated utility sell, assign, transfer, or encumber its assets to another person without first applying to and receiving the approval of the commission." MCL 460.6q(1).

MCL 460.6q(2) obligated the Commission to issue an order stating what constitutes acquisition, transfer of control, merger activities, or encumbrance of assets that are subject to this section. After due notice in Case No. U-15795, the Commission issued an order on January 25, 2010, approving a settlement agreement that fulfilled the requirements of MCL 460.6q(2). The Commission also promulgated administrative rules that created the procedures to be followed by applicants seeking approvals of mergers.[17]

[17] *See,* R 460.301-303.

The standards by which the Commission is to determine whether a merger is to be approved, modified, or rejected are set forth in MCL 460.6q(7), which provides:

> The commission shall consider among other factors all of the following in its evaluation of whether or not to approve a proposed acquisition, transfer, merger, or encumbrance:
>
> (a) Whether the proposed action would have an adverse impact on the rates of the customers affected by the acquisition, transfer, merger, or encumbrance.
>
> (b) Whether the proposed action would have an adverse impact on the provision of safe, reliable, and adequate energy service in this state.
>
> (c) Whether the action will result in the subsidization of a nonregulated activity of the new entity through the rates paid by the customers of the jurisdictional regulated utility.
>
> (d) Whether the action will significantly impair the jurisdictional regulated utility's ability to raise necessary capital or to maintain a reasonable capital structure.
>
> (e) Whether the action is otherwise inconsistent with public policy and interest.

MCL 460.6q(7).

After reviewing Joint Applicants' Application, proposed testimony, proposed exhibits, and the Amended and Restated Settlement Agreement, the Commission finds as follows:

1. Approval of the Amended and Restated Settlement Agreement is in the public interest, and represents a fair and reasonable resolution of the proceeding.

2. The proposed transaction will not have an adverse impact on the rates of the customers affected by the merger.

3. The proposed transaction will not have an adverse impact on the provision of safe, reliable, and adequate energy service in this state.

4. The proposed transaction will not result in the subsidization of a non-regulated activity of the new entity through the rates paid by the customers of the jurisdictional regulated utility.

5. The proposed transaction will not significantly impair the jurisdictional regulated utilities' ability to raise necessary capital or to maintain a reasonable capital structure.

6. The proposed transaction is consistent with public policy and interest.

7. The proposed transaction satisfies the requirements of MCL 460.6q(7).

8. The requested waivers associated with the Code of Conduct and the Affiliate Transaction Guidelines of Case No. U-13470, are appropriate, and should be granted.

9. All of the parties hereto are either signatories to the Amended and Restated Settlement Agreement, have filed documents expressing agreement to the Amended and Restated Settlement Agreement, or have expressed non-objection to the same.

10. The public interest is adequately represented by the parties who entered into the Amended and Restated Settlement Agreement.

The Commission therefore finds that the Amended and Restated Settlement Agreement should be approved.

THEREFORE, IT IS ORDERED that:

A. The March 13, 2015 Amended and Restated Settlement Agreement, appended as Attachment 1, is approved as set forth in the order without modification.

B. The June 22, 2014 Agreement and Plan of Merger executed by Wisconsin Energy Corporation and Integrys Energy Group, Inc. is approved subject to the terms and agreements enumerated more fully in the Amended and Restated Settlement Agreement.

C. The proposed transfer of ownership and control of Wisconsin Public Service Corporation and Michigan Gas Utilities Corporation from Integrys Energy Group, Inc. to Wisconsin Energy

Corporation is approved subject to the conditions set forth in the Amended and Restated Settlement Agreement.

D. The new requested waivers associated with the Code of Conduct and the Affiliate Transaction Guidelines of Case No. U-13470, which are more fully enumerated in the body of this order, are approved. Moreover, the existing waivers previously granted Wisconsin Electric Power Company, Wisconsin Public Service Corporation, and Michigan Gas Utilities Corporation are deemed to apply to the Wisconsin Energy Corporation Energy Group affiliated interest agreements, and that no such additional waivers are required.

E. Wisconsin Energy Corporation shall notify the Commission via a filing in this docket within 10 days after the date on which the Agreement and Plan of Merger is consummated.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, under MCL 462.26. In compliance with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send the required notices to both the Commission's Executive Secretary at mspcedockets@michigan.gov and to the Commission's legal counsel, Michigan Department of the Attorney General-Public Service Division at pungp1@michigan.gov. In lieu of electronic submissions, paper copies of these notifications may be sent to the Executive Secretary and Attorney General – Public Service Division at 7109 W. Saginaw Hwy, Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

John D. Quackenbush, Chairman

Greg R. White, Commissioner

Sally A. Talberg, Commissioner

By its action of April 23, 2015.

Mary Jo Kunkle, Executive Secretary

Attachment C

Rating Action: Moody's upgrades Integrys Energy to A3; outlook stable, Moody's Investor Services, Sept. 18, 2014.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Integrys Energy to A3; outlook stable

Global Credit Research - 18 Sep 2014

Approximately $1.0 billion of rated debt affected

New York, September 18, 2014 -- Moody's Investors Service, ("Moody's") today upgraded the senior unsecured rating of Integrys Energy Group, Inc. (Integrys) to A3 from Baa1. This rating action concludes our review of the company's ratings initiated on 23 June 2014. The rating outlook is stable.

"The upgrade of Integrys' senior unsecured rating reflects our view that the upcoming sale of its retail energy services business will markedly improve the company's business risk profile and result in more reliable and stable operating cash flows going forward" said Moody's Analyst Lesley Ritter.

RATINGS RATIONALE

On 30 July 2014 Integrys entered into a stock purchase agreement to sell its unregulated competitive retail electric and natural gas business, Integrys Energy Services (not rated), to Exelon Corporation (Baa2 stable). The agreed upon sale price was $60 million plus the adjusted net working capital balance of approximately $183 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015. Moody's placed Integrys on review for possible upgrade when the company first announced its intention to exit the retail energy business in June.

The upgrade of Integrys' long-term senior unsecured rating to A3 largely reflects the meaningful reduction in its business risk following the sale of its electric and natural gas marketing business. Upon completion of the transaction, the vast majority of Integrys' subsidiary operations will be regulated at the state or federal level, which, in turn, will improve the stability and predictability of the company's operating cash flow generation.

Integrys' rating also reflects a diverse multi-state service territory that provides sound regulatory support, and a strong financial performance. The rating is tempered by the high amount of debt held at the holding company level and a historically aggressive dividend payout ratio.

The upgrade brings Integrys' rating one notch closer to its largest utility subsidiary, Wisconsin Public Service Corporation (WPS; A1, senior unsecured, 53% of consolidated rate base). However, a two notch differential remains as a result of the significant amount of holding company debt (about 30% for fiscal year end 2013), and the structural subordination of parent level debt-holders.

The stable rating outlook reflects a reduced business risk profile, our expectation that holding company debt will not exceed current levels, and that credit metrics will remain in line with historical results, including CFO pre-WC/Debt of above 20% over the near to medium term. The stable outlook also takes into consideration Wisconsin Energy Corporation's (A2 senior unsecured, negative) pending acquisition of Integrys, which is anticipated to close in 2015.

WHAT COULD CHANGE THE RATING - UP

An upgrade is not expected in the near to medium-term. Longer term, we would likely need to see Integrys' consolidated ratio of CFO pre-W/C to debt exceed 25% on a sustainable basis, without the benefit of any temporary items such as bonus depreciation, to consider an upgrade. The reduction in holding company debt to below 20% of consolidated debt could also place upward pressure on the company's rating.

WHAT COULD CHANGE THE RATING - DOWN

Adverse changes in regulatory supportiveness, or an unexpected increase in leverage or decline in cash flow such that its ratio of CFO pre-W/C to debt falls below 17% on a sustained basis could lead to a downgrade. A further increase in Integrys' holdco debt or the failure to exit the retail energy marketing business would also place downward rating pressure on the company.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December

2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Upgrades:

..Issuer: Integrys Energy Group, Inc.

....Junior Subordinated Regular Bond/Debenture (Local Currency), Upgraded to Baa1 from Baa2

....Multiple Seniority Shelf (Local Currency), Upgraded to (P)A3 from (P)Baa1

....Multiple Seniority Shelf (Local Currency), Upgraded to (P)Baa1 from (P)Baa2

....Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A3 from Baa1

Outlook Actions:

..Issuer: Integrys Energy Group, Inc.

....Outlook, Changed To Stable From Rating Under Review

Affirmations:

..Issuer: Integrys Energy Group, Inc.

....Senior Unsecured Commercial Paper (Local Currency), Affirmed P-2

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