



Minnesota Energy Resources Corporation

Suite 200
1995 Rahncliff Court
Eagan, MN 55122

www.minnesotaenergyresources.com

November 20, 2015

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

VIA ELECTRONIC FILING

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

Docket No. G011/M-15-__

Dear Mr. Wolf:

Enclosed for filing, please find the Petition of Minnesota Energy Resources Corporation ("MERC") for Authorization to Establish Amortization Periods Related to Pre-Acquisition Pension and Other Postretirement Benefit Costs. This request stems from the WEC Energy Group, Inc. (formerly Wisconsin Energy Corporation) ("WEC") merger with Integrys Holding, Inc. (formerly Integrys Energy Group, Inc.) ("Integrys") as approved in Docket No. G011/PA-14-664. As a result of the merger, purchase accounting rules require WEC to assign fair market value to the assets and liabilities acquired in the transaction, including those related to pension and other postretirement benefits/costs for MERC and Wisconsin Business Services, LLC ("WBS") (formerly Integrys Business Support, LLC). In this petition, MERC proposes to identify and amortize these pre-acquisition net regulatory assets in a manner that will minimize administrative costs and the impact of the updated valuation on Minnesota customers.

A similar amortization of the pension and other post-retirement benefit costs associated with MERC's acquisition of Aquila's Minnesota assets was previously approved in Docket No. G-007/M-06-1287. This proposal is premised on similar requirements, but is limited to the MERC and WBS assets obtained in the WEC/Integrys merger.

MERC has electronically filed a copy of this petition with the Department of Commerce and has served a copy on the Office of the Attorney General-Residential Utilities and Antitrust Division. Pursuant to Minn. R. 7829.1300, subp. 2, MERC has served a summary of the filing on all other parties on the attached service list.

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

Sincerely,

/s/ Amber S. Lee

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

Enclosure

cc: Service List

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

Docket No. G011/M-15-____

PETITION

Minnesota Energy Resources Corporation ("MERC") submits to the Minnesota Public Utilities Commission ("Commission") a petition for authorization to identify MERC's pre-acquisition pension and other postemployment benefit ("OPEB")¹ assets and liabilities,² prior to the merger between Wisconsin Energy Group ("WEC") and Integrys Energy Group, Inc. ("Integrys"), and to amortize the remaining pre-acquisition net regulatory assets over a period that approximates the annual cost before the merger occurred.

As a result of this merger approved in Docket No. G011/PA-14-664, generally acceptable accounting principles ("GAAP") require WEC to assign fair market value to assets and liabilities obtained in the transaction, including those related to pension and other postretirement benefits/costs of its newly acquired subsidiaries. As illustrated in Exhibits 1 and 2 to this Petition, MERC seeks Commission approval to amortize the MERC assets over a period of 15 years, and to amortize MERC's portion of the WBS assets over their remaining service lives ranging from 5 to 11.5 years, beginning January 1, 2016. This approach will properly account for the value of MERC's allocated share of pension and OPEB assets in a manner that minimizes any impacts of the purchase accounting rules on MERC customers and maintains a single set of actuarial analyses across WEC's operating utilities. This approach is consistent with the amortization of the regulatory asset for revalued pension and OPEB benefits approved in the context of the Aquila acquisition in Commission Docket G-007, 011/M-06-1287.³

¹ OPEB assets and liabilities are sometimes referred to as "Post Employment Benefits Other Than Pension" or "PBOP." OPEB and PBOP are interchangeable terms when referring to postemployment benefits excluding pension.

² This petition requests authorization for both MERC pension and OPEB regulatory assets and those WEC Business Services, LLC ("WBS") (formerly known as Integrys Business Support, LLC) pension and OPEB regulatory assets allocable to MERC.

³ *In the Matter of the Petition of Minnesota Energy Resources Corporation for Authorization to Establish a Regulatory Asset for Pension and Other Postretirement Benefits Acquired from Aquila, Inc.*, ORDER, Docket No. G-007,011/M-06-1287 (July 30, 2007). The Aquila asset

The following information is provided in accordance with Minn. R. 7829.1300:

I. Summary of Filing

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing is attached to this filing.

II. Service on Other Parties

Pursuant to Minn. R. 7829.1300, subp. 2, MERC has served a copy of this filing on the Department of Commerce and the Office of the Attorney General – Residential Utilities Division. The summary of the filing has been served on all parties on MERC's general service list. A copy of MERC's general service list is attached to this filing.

III. General Filing Information

A. Name, Address, and Telephone Number of the Utility

Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8900

B. Name, Address, and Telephone Number of Attorney for the Utility

Elizabeth M. Brama
Briggs and Morgan, P.A.
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
(612) 977-8400

Koby Bailey
WEC Energy Group, Inc.
200 East Randolph Street
Suite 2300
Chicago, IL 60601
(312) 240-4081

C. Date of the Filing and Date Proposed Change Will Take Effect

Date of filing: November 20, 2015

Proposed Effective Date: January 1, 2016

amortization period was previously established in Docket G-007,011/M-06-1287, and is not part of this Petition.

D. Statute Controlling Schedule for Processing the Filing

There is no statutory provision establishing an explicit time deadline for Commission action. Under Minn. R. 7829.1400, initial comments are due within 30 days of filing, with reply comments due 10 days thereafter.

E. Signature and Title of Utility Employee Responsible for the Filing



Amber S. Lee
Regulatory and Legislative Affairs Manager
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8965

F. Service List

Pursuant to Minn. R. 7829.0700, MERC requests the following persons representing MERC be placed on the Commission's official service list for this proceeding:

Elizabeth M. Brama
Briggs and Morgan, P.A.
2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
ebrama@briggs.com

Amber S. Lee
Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
ASLee@minnesotaenergyresources.com

Koby Bailey
WEC Energy Group, Inc.
200 East Randolph Drive
Chicago, IL 60601
KABailey@integrysgroup.com

IV. Description and Purpose of Filing

On June 25, 2015, in Docket No. G-011/PA-14-664, the Commission issued an Order approving the merger between Integrys, MERC's former parent company, and WEC. The transaction closed on June 29, 2015 ("the merger"), at which time WEC became the ultimate corporate parent of MERC. As a result of the merger, purchase accounting rules under GAAP require WEC to determine and state the fair value of certain acquired Integrys assets and liabilities, including those related to pension and OPEB plans allocated to MERC, utilizing inputs to the calculation as of the time of the merger. Future

actuarial determinations must be made on the basis of the re-valued asset or liability under GAAP.

To properly align regulatory and GAAP books and records and minimize the impact on Minnesota customers, MERC requests Commission approval to identify MERC's pre-closing pension and OPEB assets and liabilities and to permit amortization of these costs over a period that will approximate the same annual pension cost level that MERC would have recorded absent the merger.

In accordance with GAAP and as accepted in past MERC rate cases, MERC has previously used smoothing mechanisms to partially defer certain costs (prior service costs and actuarial gains and losses) of its pension and OPEB plans in accordance with Accounting Standards Codification ("ASC") 715.⁴ These standards allow sponsors of pension and OPEB plans to defer, and then gradually reflect amortization of, previously unrecognized costs and credits over the remaining service lives of the plan participants. In effect, the pension and OPEB assets allocable to MERC prior to the merger already reflect regulatory assets that were being amortized over time.

Purchase accounting rules do not assign more or less costs to MERC as a result of the merger, and no push down accounting or transaction costs are assigned to MERC through this proposal. Nor is MERC seeking to establish a new regulatory asset. Rather, MERC's proposal is limited to establishing the amortization period for the remaining pre-acquisition net regulatory assets in a manner that will align with the historical actuarial recognition while minimizing ratepayer impact of the re-valuation. At the same time, this proposal will reduce the administrative cost of otherwise requiring WEC to conduct multiple actuarial valuations of pension and OPEB assets to reflect regulatory requirements differently from GAAP.

Because MERC would not typically re-measure its pension and OPEB liabilities during the year under historical accounting approaches, and to avoid any income statement impact related to this re-measurement, for the remainder of 2015 MERC proposes to record pension and OPEB expense following the pre-acquisition actuarial calculations that were used for the first half of 2015. This expense will include the amortization of any prior service costs and actuarial gains and losses. This amortization will have the net impact of reducing the pension and OPEB asset balance through December 31, 2015.

Beginning January 1, 2016, MERC would amortize the remaining pre-acquisition net regulatory assets over the time periods reflected in Exhibit 1 (MERC) and Exhibit 2 (WBS).⁵ The effect of this re-measurement relative to the current treatment is shown in Exhibit 3. More specifically, MERC requests approval to amortize WBS assets allocated to MERC over their remaining service lives of 5 to 11.5 years so that the WEC utilities account for these assets in the same manner for all jurisdictions. MERC proposes to

⁴ ASC 715-30 was formerly Statement of Financial Accounting Standards ("SFAS") 87, while ASC 715-60 was formerly SFAS 106.

⁵ Exhibit 1 details the various balance sheet impacts related to this planned accounting, the recommended amortization period, and the related income statement impact for MERC. Exhibit 2 provides similar information for WBS costs, and further illustrates the portion of the WBS amortization allocable to MERC.

amortize its own pension and OPEB asset over a 15-year period, in order to approximately align the annual amortization with historical actuarial recognition.⁶

Apart from this revaluation to properly reflect the impact of the merger, MERC plans to continue accounting for its pension and OPEB assets as previously allowed by GAAP and its state regulators, subject to any future changes that may arise as part of other regulatory processes. This approach will then result in a regulatory cost recognition that aligns with historical actuarial recognition and GAAP; properly reflects on MERC's books and records the value of pension and OPEB costs allocated to MERC; and does not increase MERC's administrative and actuarial costs.

MERC respectfully requests the Commission to authorize the requested treatment as of June 30, 2015, with amortization beginning January 1, 2016. MERC further requests approval within the first quarter of 2016 to properly align MERC's 2015 and 2016 books and records.

V. Effect on MERC's Rates

As illustrated in Exhibit 3, MERC's proposal will result in MERC recognizing slightly lower annual pension and OPEB cost for its own employees/retirees and slightly higher annual pension and OPEB cost for WBS amounts allocated to MERC, as compared to annual amortization if WEC had not acquired Integrys. This proposal will have no impact on the amount MERC proposes to include in rate base in its pending Minnesota rate case.

VI. Conclusion

MERC respectfully requests that the Commission issue an Order authorizing the amortization of pension and OPEB acquired from Integrys by WEC over the periods indicated herein, starting January 1, 2016.

If additional information is required, please contact Amber Lee at: (612) 322-8965.

DATED: November 20, 2015

Respectfully Submitted,

Minnesota Energy Resources Corporation

By: /s/ Amber S. Lee

Amber S. Lee
Minnesota Energy Resources Corporation
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
(651) 322-8965

⁶ As illustrated in the Exhibits 1 and 2 to this Petition, this cost reduction and benefit to customers makes it necessary to increase the period over which the pre-acquisition pension and OPEB regulatory assets must be amortized in order to align historical and present amortized amounts.

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
John Tuma
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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

Docket No. G011/M-15-____

SUMMARY OF FILING

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Minnesota Energy Resources Corporation (“MERC”) petitions the Commission for authorization to establish amortization periods related to net pre-acquisition pension and other postretirement benefits/costs. Due to the acquisition of Integrys by WEC, MERC must assign fair market value to assets and liabilities that were acquired in the transaction, including those related to pension and other postemployment benefits. In this Petition, MERC requests Commission authorization to identify those pre-acquisition net regulatory assets and establish their amortization periods.

WEC Energy Group
Remeasurement Impact on Integrys Utility Companies
MERC

	Pension	Administrative Welfare	Non- Administrative Welfare, Life and Supplemental Insurance	Total
Book Balance as of June 30, 2015	\$ 10,122,111	\$ 2,150,843	\$ 305,209	\$ 12,578,163
Remeasurement Balance at June 30, 2015 (Merger Asset)	7,735,990	2,236,557	140,590	10,113,137
Amortization of Balance for Remainder of 2015 (6 months)	603,592	(34,803)	7,067	575,856
Rollforward Balance as of December 31, 2015	7,132,399	2,271,360	133,524	9,537,282
Suggested Amortization Period*	15.0	15.0	15.0	
Yearly Amortization	475,493	151,424	8,902	635,819

WEC Energy Group
Remeasurement Impact on Integrys Utility Companies
WBS

	Pension	PEC Welfare & Administrative Welfare	Non-Administrative Welfare, Life and Supplemental Insurance	Total
Book Balance as of June 30, 2015	\$ 15,033,858	\$ 1,110,678	\$ 23,168	\$ 16,167,704
Remeasurement Balance at June 30, 2015 (Merger Asset)	15,221,565	1,696,509	18,423	16,936,497
Amortization of Balance for Remainder of 2015 (6 months)	1,470,158	(17,844)	736	1,453,050
Rollforward Balance as of December 31, 2015	13,751,408	1,714,353	17,688	15,483,448
Suggested Amortization Period*	5.0	7.0	11.5	
Yearly Amortization	2,750,282	244,908	1,538	2,996,728

*See below for calculation of Pension amortization period
All other amortizations based on remaining service life of plan participants as of June 30, 2015 rolled forward to December 31, 2015

Calculation of Amortization Period

Ratio of revalued liability to current balance	101.25%
Apply % to 6 month amortization	1,488,513
Annualize	2,977,027
Indicated amortization period	4.62
Round to	5.0

Minnesota Energy Resources Corporation

Account Number	Account Description	Initial Filing	Proposed Merger Reg Asset amort	Proposed Amortization Period (Years)	Merger Date Reg Asset (Liab) @ 12/31/2015
		Amortization (Included in Gross Cost)			
[A]	[B]	[D]	[E]	[F]	[G]
<u>MERC Benefit Plans</u>					
926060	Pension Expense	\$ 710,154	\$ 467,626	15.0	\$ 7,014,396
926210	Pension Restoration	2,714	1,176	15.0	17,642
926220	IntegrYS SERP	0	2,733	15.0	40,990
926220	MERC SERP	3,529	3,958	15.0	59,371
926180	Post Retirement Medical -Admin	(69,605)	151,424	15.0	2,271,360
926180	Post Retirement Medical -Non-Admin	8,757	7,927	15.0	118,905
926305	Postretirement Life	1,444	975	15.0	14,618
	Total MERC Costs	<u>\$ 656,993</u>	<u>\$ 635,819</u>		<u>\$ 9,537,282</u>
<u>Legacy IBS Benefit Plans</u>					
926300	Pension Expense	\$ 1,329,428	\$ 2,571,448	5.0	\$ 12,857,242
926300	Pension Restoration	0	24,045	5.0	120,223
926300	IntegrYS SERP	0	192,068	5.0	960,338
926300	Peoples Energy Supplemental Plan	0	(37,279)	5.0	(186,395)
926300	Peoples Energy Retiree Welfare	(35,040)	188,348	7.0	1,318,435
926300	Post Retirement Medical -Admin	(647)	56,560	7.0	395,918
926300	Postretirement Life	0	1,538	11.5	17,687
	Total Legacy IBS Costs	<u>\$ 1,293,741</u>	<u>\$ 2,996,728</u>		<u>\$ 15,483,448</u>
	MERC Share of Legacy IBS Costs at 3.9%	<u>\$ 50,456</u>	<u>\$ 116,872</u>		
	GRAND TOTAL MERC Costs	<u>\$ 707,449</u>	<u>\$ 752,691</u>		

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

Docket No. G011/M-15-__

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 20th day of November, 2015, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Petition on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 20th day of November, 2015.

/s/ Kristin M. Stastny
Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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Colleen	Sipiorski	ctsipiorski@integrysgroup.com	Minnesota Energy Resources Corporation	700 North Adams Street Green Bay, WI 54307	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List