

Direct Testimony and Schedules
Richard F. Stasik

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation
for Authority to Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-22-504

Exhibit _____ (RFS-D)

Rate Case Overview, Capital Investments, Riders, and Compliance

November 1, 2022

TABLE OF CONTENTS

I.	INTRODUCTION AND QUALIFICATIONS.....	1
II.	COMPANY BACKGROUND.....	3
III.	RATE CASE OVERVIEW.....	4
IV.	CAPITAL BUDGET PLAN	12
	A. Routine Capital Projects	13
	B. Key Individual Capital Investments	15
	1. Overview of Key Discrete Projects.....	15
	2. Customer Service & Operations Investments	17
	C. RIDER AND RIDER-RELATED COST RECOVERY	25
	1. Rochester Project.....	25
	2. Gas Utility Infrastructure Project Costs	28
V.	GAS AFFORDABILITY PROGRAM	36
VI.	PANDEMIC IMPACTS AND COMPANY ACTIONS	42
VII.	OTHER COMPLIANCE ITEMS	48
	A. Improved Customer Experience	48
	B. WEC Merger	53
VIII.	CONCLUSION.....	58

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Richard F. Stasik. My business address is 231 West Michigan
4 Street, Milwaukee, WI 53203.

5
6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. I am employed by WEC Business Services, LLC ("WBS"), serving all of the WEC
8 Energy Group, Inc. ("WEC") utilities, including Minnesota Energy Resources
9 Corporation ("MERC" or the "Company"). WBS is a wholly-owned subsidiary of
10 WEC. My position is Director – State Regulatory Affairs.

11
12 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

13 A. I received a Bachelor of Science Degree with a double major in Accounting and
14 Management Information Systems from the University of Wisconsin – Milwaukee
15 in 1999. I have been employed by Wisconsin Energy Corporation, the
16 predecessor to WEC, since 2013. I worked as the IT Audit Manager within the
17 Internal Audit Department before joining State Regulatory Affairs as Manager –
18 Regulatory Planning and Systems in January 2016. I was promoted to Director –
19 State Regulatory Affairs in 2018. In this position, I am responsible for overseeing
20 and managing all of WEC's operating utilities' regulatory matters in Wisconsin,
21 Michigan, and Minnesota.

1 Q. FOR WHOM ARE YOU PROVIDING TESTIMONY IN THIS PROCEEDING?

2 A. I am providing testimony on behalf of MERC.

3

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. I provide background on MERC and MERC's parent company, WEC, and also an
6 overview of MERC's rate case, which is based on a 2023 proposed test year. I
7 also introduce the other witnesses providing Direct Testimony in this proceeding.
8 I discuss MERC's expected increase in capital investment as compared to
9 historical levels, as well as certain significant capital projects and work currently
10 being recovered in the Natural Gas Extension Project ("NGEP") and Gas Utility
11 Infrastructure Cost ("GUIC") Riders. Additionally, I discuss the Company's
12 actions to assist customers during the COVID-19 pandemic, and provide an
13 overview of the Gas Affordability Program and address compliance items relating
14 to the Improved Customer Experience ("ICE") and WEC Merger.

15

16 Overall, I explain that this rate case is driven largely by additional capital
17 investments necessary to serve customers, and by increases in Company costs
18 since MERC's last rate case was filed in 2017. During that time we have worked
19 hard to control costs and avoid rate case filings, which we believe has served our
20 customers well—particularly in 2020 and 2021 amidst the ongoing pandemic.
21 However, MERC has continued to experience rising costs. Additionally, the
22 scheduled expiration of the GUIC Rider and the need to roll the Rochester

1 Project into base rates further drive the need for this rate case. Accordingly,
2 MERC proposes the base rate revenue increase presented in this rate case.

3
4 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR
5 TESTIMONY IN THIS PROCEEDING?

6 A. Yes, I am sponsoring the following:

- 7 • Exhibit ____ (RFS-D), Schedule 1: Map of MERC Service Territory;
- 8 • Exhibit ____ (RFS-D), Schedule 2: WEC corporate structure, including all
9 major regulated and non-regulated entities; and
- 10 • Exhibit ____ (RFS-D), Schedule 3: Table of Merger Conditions.

11
12 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION
13 AND SUPERVISION?

14 A. Yes, they were prepared by me or under my direct supervision.
15

16 II. COMPANY BACKGROUND

17 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF MERC AND THE AREA IT
18 SERVES.

19 A. MERC is a corporation organized under the laws of the State of Delaware,
20 authorized to do business in Minnesota, with its principal office located in
21 Rosemount, Minnesota. MERC is a sister company to Wisconsin Electric Power
22 Company and Wisconsin Gas Company LLC (d/b/a We Energies), Wisconsin
23 Public Service Corporation, Upper Michigan Energy Resources Corporation,

1 Michigan Gas Utilities Corporation, The Peoples Gas Light & Coke Company,
2 and North Shore Gas Company, which provide natural gas and electric service in
3 the states of Wisconsin, Michigan, and Illinois.

4
5 MERC provides natural gas distribution service to approximately 246,000
6 customers in 52 counties and 179 communities throughout the state of
7 Minnesota. A map of MERC's service territory is attached as Exhibit ____ (RFS-
8 D), Schedule 1.

9
10 **III. RATE CASE OVERVIEW**

11 Q. PLEASE EXPLAIN, GENERALLY, WHY MERC IS SEEKING A RATE
12 INCREASE.

13 A. MERC's currently authorized rates will not provide sufficient revenue to cover the
14 Company's existing and anticipated costs of providing service or provide MERC
15 a reasonable opportunity to earn its authorized rate of return in 2023. In
16 particular, MERC's actual and planned capital investments since its last rate case
17 in 2017 are at the heart of this case.

18
19 Q. WHAT IS THE AMOUNT OF RATE RELIEF MERC IS SEEKING IN THIS
20 PROCEEDING?

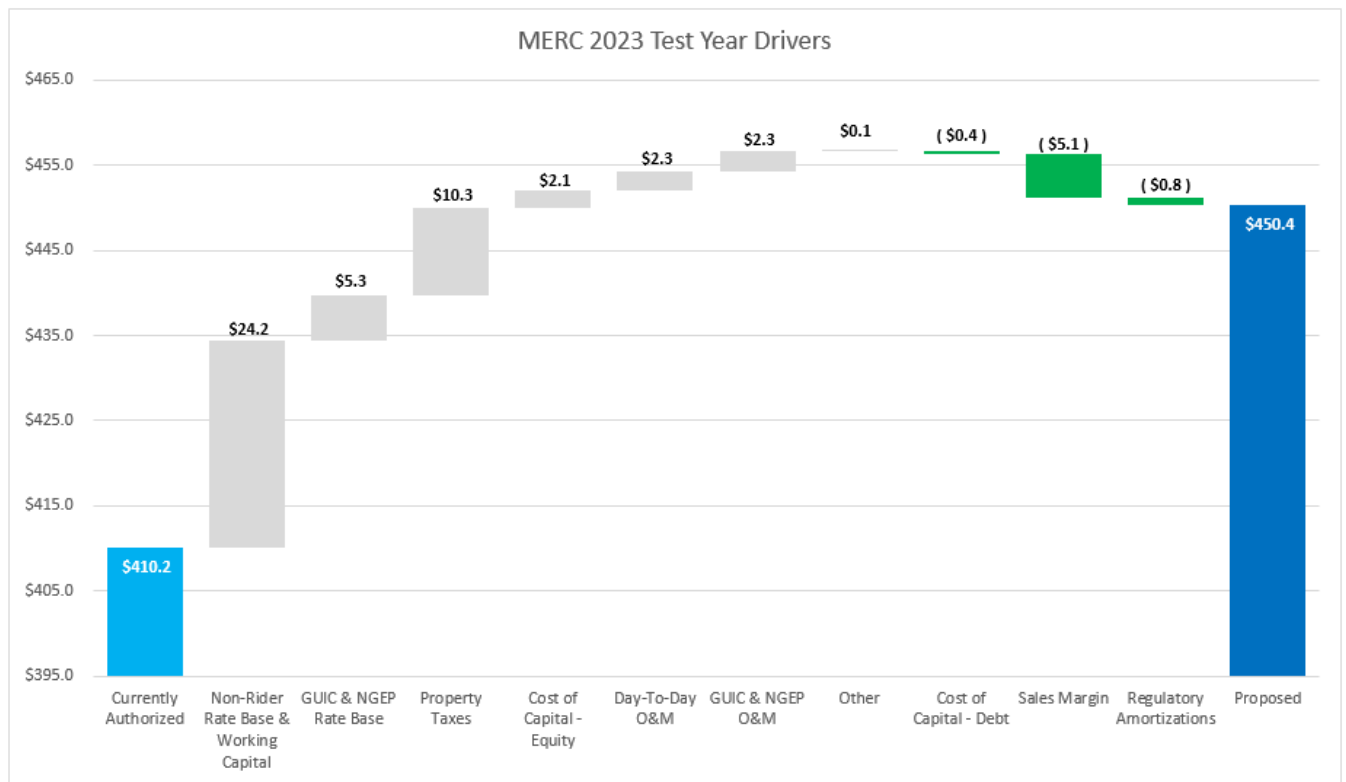
21 A. MERC's cost of service study for the proposed test year ending December 31,
22 2023 indicates the need for a net annual revenue increase of \$32.76M or 7.9% of
23 total revenues absent rider roll-ins, or \$40.3M (9.9% of total revenues) including

1 the impacts of the GUIC and NGEF Riders. These increases are based on an
2 authorized rate of return on common equity ("ROE") of 10.30% and a capital
3 structure of 53.0% common equity, 42.64% long-term debt, and 4.36% short-
4 term debt, for an overall cost of capital of 7.07%. MERC is requesting that these
5 increased revenues be recovered through the rate design proposed by Company
6 witness Ms. Joylyn Hoffman Malueg. The rates sponsored by Ms. Hoffman
7 Malueg are designed to produce the requested revenue requirement and move
8 toward having each rate class cover its cost of service, consistent with the cost-
9 of-service analysis sponsored by Company witness Mr. Patrick Sullivan.

10
11 Q. WHAT ARE THE KEY DRIVERS OF MERC'S RATE REQUEST?

12 A. As shown in Figure 1 below, MERC's rate request is driven primarily by
13 increased non-rider capital investments, property tax increases, slightly higher
14 day-to-day operations and maintenance ("O&M") costs, the roll-in of GUIC and
15 NGEF costs, and the proposed changes to MERC's cost of capital. These
16 increases are partially offset by increased sales margins and reduced regulatory
17 amortizations.

Figure 1. MERC 2023 Test Year Drivers



Q. CAN YOU PROVIDE MORE INFORMATION REGARDING THE KEY DRIVERS OF MERC'S NEED FOR A BASE RATE INCREASE?

A. Yes. The primary drivers of MERC's projected revenue deficiency are the significant capital projects that have been undertaken since the Company's last rate case, which was filed in 2017 based on a 2018 test year in Docket No. G011/GR-17-563 ("2017 Rate Case"), and that are planned to be undertaken in the 2023 test year. MERC's annual capital investments have grown since the 2018 test year in the 2017 Rate Case, to a forecast of \$60.9 million in 2022 and \$57.9 million in 2023. These capital investments are largely driven by MERC's overall investments in mains, services, and other work associated with

1 maintaining the gas distribution system, as well as certain larger projects
2 discussed in more detail later in my Direct Testimony and in the testimony of
3 Company witness Mr. Ted Prosser.

4
5 In addition, MERC is experiencing rising day-to-day O&M expenses,¹ given the
6 length of time since the Company's last rate case and the current inflationary
7 environment. As Company witness Mr. Joseph Zgonc explains in his Direct
8 Testimony, after applying general inflation and known and measurable ("K&M")
9 items, the 2023 forecasted day-to-day O&M represents only a \$2.3 million
10 increase as compared to the O&M approved by the Minnesota Public Utilities
11 Commission (the "Commission") in MERC's 2017 Rate Case. This average
12 increase over the last five years is only about 1.1% per year. By way of
13 comparison, had actual and forecasted inflation² been applied to the day-to-day
14 O&M from the 2017 Rate Case, MERC would have a forecast of \$53.6 million or
15 \$7.7 million higher than MERC's forecasted O&M for 2023 in this case. This is
16 before factoring in anticipated future inflation. In short, MERC has kept its O&M
17 costs well below historical inflation rates, and in doing so has not only contained
18 costs but also avoided a rate case for several years.

¹ Day-to-day operations and maintenance expense are used to characterize costs to manage MERC's operations on a daily basis and excludes items not fitting that description, such as regulatory account amortizations.

² The Compound Average Growth Rate of inflation since MERC's last rate case is 4.25%, as reported in the Philadelphia Fed Inflation Composite Index.

1 Despite these successful ongoing cost containment measures, current
2 inflationary pressures for 2022 and 2023 and increasing interest rates are driving
3 up costs at a faster pace than the Company has experienced in decades. While
4 MERC continues to manage O&M and capital costs to the extent possible, it
5 cannot control inflationary pressures or rising interest rates. In 2022, inflation
6 has been at the highest levels in 40 years, and costs are likely to continue to rise
7 over 2022 levels moving into 2023.³ This affects virtually all aspects of the
8 business, from material costs to contractor costs to fleet management. Likewise,
9 interest rates have also increased materially, driving up borrowing costs. The
10 Federal Reserve Bank has raised interest rates five times so far in 2022: 0.25%
11 in March, 0.50% in May, 0.75% in June, 0.75% in July, and another 0.75% on
12 September 21, 2022. Company witness Ms. Ann Bulkley further describes the
13 strong upward pressure on U.S. Treasury Rates. As such, the Company's costs
14 are rising, both in terms of purchasing and in terms of borrowing rates. These
15 factors are combining to increase the Company's costs at a time when historical
16 levels of spend are not sustainable to meet customers' and system needs. While
17 these capital costs are described primarily in my Direct Testimony and that of Mr.
18 Prosser, Mr. Zgonc provides overall rate base detail and also supports the
19 Company's O&M requests in this proceeding.
20

³ According to the Bureau of Labor Statistics, actual inflation in 2022 has ranged between 7.5% in January and 9.1% in June of 2022.

1 MERC's revenue requirement also includes the proposed 2023 Conservation
2 Improvement Program ("CIP") expense as discussed in Mr. Zgonc's testimony,
3 and projected continued increases in property tax expense as discussed in
4 MERC's last three rate cases (Docket Nos. G011/GR-13-617, G011/GR-15-736,
5 and G011/GR-17-536) and described in this case by Company witness Mr. Mark
6 Kissinger.

7
8 However, these increases in capital and O&M expense are partially offset by a
9 moderate increase in sales revenues, as described by Company witness Mr.
10 Jared Peccarelli. Although Residential and Commercial & Industrial ("C&I")
11 customer growth is slowing and usage per customer is decreasing due to energy
12 efficiency, conservation efforts, and gas prices, the Company anticipates
13 increases in transportation deliveries due primarily to current taconite mine
14 customer activity.

15
16 Q. PLEASE PROVIDE AN OVERVIEW OF MERC'S APPROACH TO REVENUE
17 APPORTIONMENT AND RATE DESIGN IN THIS CASE.

18 A. As described in the Direct Testimony of Ms. Hoffman Malueg, the class cost of
19 service study ("CCOSS") presented by Company witness Mr. Patrick Sullivan
20 was the starting point MERC's proposed apportionment of the retail revenue
21 requirement among the rate classes. Other rate design goals such as
22 maintaining competitive pricing for competitive services and limiting large bill
23 changes or "rate shock" also informed MERC's development of the proposed rate

1 design in this case, including its interim rate request. MERC's objective in
2 development of the proposed rate design is recovery as closely as possible to
3 the costs imposed by each class, while avoiding unacceptably high billing
4 impacts. Notably, MERC is proposing to maintain the current monthly fixed
5 customer charges in this case.

6
7 Q. PLEASE DESCRIBE HOW MERC HAS ADDRESSED COMPLIANCE
8 REQUIREMENTS IN ITS RATE CASE FILING.

9 A. MERC has prepared a matrix that describes each filing requirement that applies
10 in this case and where the required information can be found within MERC's
11 initial filing.⁴ This Compliance Table sets forth the requirements from
12 Commission rules and statutes, Commission policy statements, and Commission
13 orders that apply to MERC for this rate case. MERC has also included a list of
14 requirements that no longer apply, with an explanation of how the requirements
15 were previously resolved.

16
17 Q. PLEASE IDENTIFY MERC'S OTHER RATE CASE WITNESSES AND
18 INDICATE THE SUBJECTS THEY WILL ADDRESS IN THEIR DIRECT
19 TESTIMONIES.

20 MERC's rate case witnesses include the following:

⁴ The document is titled "Filing Requirements Compliance Table" and can be found in Volume 1 of the filing.

- 1 • Mr. Joseph L. Zgonc presents support for the 2023 test year revenue
2 requirement. This includes 2021 historical year, 2022 projected year, and
3 2023 proposed test year information. He also addresses the transition of the
4 GUIC Rider and NGEF Rider into base rate revenue recovery, the Company's
5 Conservation Improvement Program, and various compliance items, and
6 provides support for the requested interim rate increase;
- 7 • Ms. Ann E. Bulkley provides expert testimony on MERC's proposed test year
8 capital structure, cost of capital, and requested ROE;
- 9 • Mr. Jared J. Peccarelli presents MERC's 2023 sales forecast and supporting
10 documentation;
- 11 • Mr. Mark E. Kissinger presents testimony regarding property taxes, the status
12 of MERC's pending property tax appeal, and the status of MERC's property
13 tax tracker as approved in the Company's 2017 Rate Case;
- 14 • Ms. Tracy Kupsh addresses affiliated cost allocations under the Commission-
15 approved WEC Energy affiliated interest agreement;
- 16 • Mr. Ted F. Prosser presents testimony regarding MERC's service line
17 Mapping Project, Farm Tap Replacement Project and Farm Tap Inspection
18 Program, Rochester Natural Gas Extension Project, Worthington Lateral
19 Project, Sewer Cross Bore Survey Project; and the PragmaCAD Mobile
20 Workforce Management Project. Additionally, Mr. Prosser's testimony
21 addresses compliance matters related to main and service line extensions,
22 winter construction charges, and other related compliance requirements;

- Mr. Patrick P. Sullivan presents MERC's CCROSS and addresses related compliance requirements; and
- Ms. Joylyn C. Hoffman Malueg presents testimony regarding the Lead/Lag study, rate design, the transition of the GUIC and NGEP Riders into base rates, MERC's Revenue Decoupling Mechanism ("RDM"), and proposed tariff changes.

IV. CAPITAL BUDGET PLAN

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF MERC'S OVERALL CAPITAL PLANS.

A. Historically, MERC has incurred approximately \$20-35M per year in capital spending. Capital investment for MERC has historically consisted of smaller projects that go into service in the same year they are started, such as main and service extensions, system reinforcements, obsolete materials replacement projects, and right-of-way relocations. Actual capital investment in 2021 totaled \$67.1M. By contrast, in its current capital plan, MERC anticipates approximately \$60.9M in total capital investments in 2022 and approximately \$57.9M in 2023.⁵ Routine capital investments for system reliability, removal of obsolete materials, and right-of-way relocations, continue to be the largest driver of ongoing capital, including the Advanced Metering Infrastructure ("AMI") project that is expected to

⁵ See Exhibit ____ (JLZ-D), Schedule 02: Capital Projects. The 2022 capital investment presented in that exhibit of \$56.8M is only for the months of April through December. The capital investment in January through March of 2022 totaling \$4.1M has already been included in the development of the bridge year balance sheet.

1 go in service by the end of 2022. Additionally, capital cost increases in 2022 and
2 2023 are driven by a number of projects being placed in service during this
3 period, by the recovery of certain Rochester project and GUIC costs in base
4 rates rather than the riders, and by the overall cost increases the Company is
5 experiencing, as described earlier in my Direct Testimony.

6
7 **A. Routine Capital Projects**

8 Q. PLEASE DESCRIBE THE ROUTINE CAPITAL INVESTMENTS DRIVING THIS
9 CASE.

10 A. Routine capital investments for system safety, integrity, and reliability, removal of
11 obsolete materials, and right-of-way relocations continue to be the largest driver
12 of ongoing capital. Such routine capital investments are forecast to be
13 approximately \$34.3 in 2023. As described in the Company's annual GUIC Rider
14 petitions,⁶ through the GUIC Rider, MERC has been able to implement multi-year
15 programs under its Distribution Integrity Management Program ("DIMP") for the
16 identification and removal of known risks on the Company's distribution system,
17 consistent with applicable federal and state regulations and requirements.
18 MERC has also experienced a growing number and cost of right-of-way
19 relocation projects in recent years, which are driven by federal, state, and local
20 projects that necessitate the relocation of MERC's gas distribution facilities in the
21 public right-of-way. Capital spending in 2021 on GUIC-eligible right-of-way

⁶ Docket Nos. G011/M-18-281, G011/M-19-282, G011/M-20-405, G011/M-21-232, and G011/M-22-127.

1 relocation projects and DIMP work was approximately \$13.5 million, representing
2 approximately 30% of MERC's overall capital spending in 2021.

3
4 Q. PLEASE DESCRIBE THE TYPE OF ROUTINE CAPITAL WORK THE
5 COMPANY EXPECTS TO CONDUCT IN 2023.

6 A. MERC's general routine capital investments for 2023 include:

- 7 • Gas service replacements (\$2.3M);
- 8 • Main extensions and new area growth (\$5.0M);
- 9 • New gas services (\$5.4M);
- 10 • Right-of-way relocations (\$9.9M);
- 11 • DIMP main replacements (\$8.0M); and
- 12 • Station replacements (\$2.1M).

13
14 Other miscellaneous jobs, including meter replacements, miscellaneous tool
15 replacement and fleet upgrades, make up the remainder of routine capital
16 investment.

17
18 Q. WHY MUST MERC CONTINUE TO INVEST IN THE REPLACEMENT OF
19 OBSOLETE MATERIALS ON THE NATURAL GAS DISTRIBUTION SYSTEM?

20 A. In accordance with the Pipeline and Hazardous Materials Safety Administration
21 ("PHMSA") Integrity Management Program for Gas Distribution Pipelines Rule,
22 49 C.F.R. Part 192, subpart P, MERC must identify and implement measures
23 designed to reduce the risks from failures of its gas distribution and transmission

1 facilities. Under Subpart P, all natural gas distribution companies are required to
2 develop, write, and implement an integrity management program with the
3 following elements:

- 4 • Understand system design and material characteristics, operating
5 conditions and environment, and maintenance and operating history;
- 6 • Identify existing and potential threats;
- 7 • Evaluate and rank risks;
- 8 • Measure integrity management program performance, monitor results,
9 and evaluate effectiveness;
- 10 • Periodically assess and improve the integrity management program; and
- 11 • Report performance results to PHMSA, and where applicable, also to
12 states.

13 In addition to federal regulatory requirements, MERC is obligated to comply with
14 Minnesota Office of Pipeline Safety (“MNOPS”) requirements.
15

16 **B. Key Individual Capital Investments**

17 1. Overview of Key Discrete Projects

18 Q. WHAT ARE THE KEY CAPITAL INVESTMENTS FOR 2022 AND 2023 THAT
19 ARE SEPARATE FROM ROUTINE INVESTMENTS?

20 A. In addition to the routine system work, MERC is also investing in a number of
21 more unique initiatives in 2022 and 2023, as summarized below:

- 22 • **Rochester Natural Gas Expansion Project (the “Rochester Project”):**

23 MERC anticipates completing the Rochester Project in 2022, as discussed by

1 Mr. Prosser. Below, I discuss the Company's proposed means of cost
2 recovery for this project.

- 3 • **AMI:** In 2022, MERC is largely completing implementation of its AMI meters
4 (\$3.4 M in 2022), the roll-out of the associated Meter Data Management
5 ("MDM") system presently used by other WEC affiliates to MERC customers
6 (\$0 M in 2022),⁷ and associated additional information technology ("IT") and
7 business unit work needed to integrate AMI (approximately \$0.4 M in 2022).
8 The MDM portion of AMI is part of the Customer Service 2022 ("CS2022")
9 project MERC discussed and for which MERC previewed future work in its
10 2017 Rate Case. I discuss this project and its components in more detail
11 below.

- 12 • **Mobile Workforce Management:** In 2023, MERC is completing
13 implementation of its replacement mobile workforce management platform,
14 CGI PragmaCAD ("PCAD"). MERC's existing mobile workforce platform is at
15 the end of its life and is being replaced by the system already in place for
16 other WEC utilities, which will benefit MERC customers because the utilities
17 can utilize common and uniform best practices and share O&M costs over a
18 much larger base of customers. The anticipated capital cost of this project
19 included in MERC's revenue requirement is approximately \$5M in 2023. Mr.
20 Prosser discusses this project in more detail in his Direct Testimony.

⁷ These activities were completed in 2020 and therefore there are no costs associated with these activities in 2022.

- 1 • **Farm Tap Replacement Project:** MERC plans to begin its Farm Tap
2 Replacement Project, as approved by the Commission in Docket No.
3 G011/M-17-409, as discussed in greater detail by Mr. Prosser. The Company
4 anticipates investments of approximately \$2.0M in 2023 for farm tap
5 replacements and approximately \$0.25 million related to the Farm Tap
6 Enhanced Customer Education Program.
- 7 • **Worthington Lateral Project:** MERC completed the Worthington Lateral
8 Project in 2020, which consisted of running a 12-inch high-pressure steel
9 main from Northern Natural Gas's ("NNG's") existing Brewster town border
10 station ("TBS"), located approximately six miles west of Worthington,
11 Minnesota. This project has added capacity NNG was lacking to meet
12 MERC's firm service demand in the area. Total costs of the project were
13 approximately \$12.7M. Mr. Prosser discusses the Worthington Lateral
14 Project.

15
16 2. Customer Service & Operations Investments

17 Q. WHAT DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

18 A. I discuss the Company's key technology investments, with the largest being the
19 Advanced Metering Infrastructure (AMI) program implementation. I discuss how
20 AMI, part of MERC's broader Customer Service 2022 initiative, consists primarily
21 of deploying advanced meters, the head end system, and the MDM infrastructure
22 to replace prior Automated Meter Reading ("AMR") technology. I explain why

1 MERC embarked on this program, how the program was planned and rolled out,
2 and overall program costs and benefits.

3
4 Q. DID MERC PREVIEW ITS AMI PROGRAM IN ANY PRIOR RATE CASES?

5 A. Yes. In MERC's 2017 Rate Case, the Company discussed that along with other
6 WEC utilities, over the last several years MERC has been implementing the
7 CS2022 program, a unified vision for the WEC utilities' digital customer service.
8 The overall vision for CS2022 is illustrated in Figure 2 below:

9
10 **Figure 2: CS2022 Vision**

From We to Us: One Team delivering an Integrated Customer Experience.

Customer Service 2022 is the unified vision for all WEC utilities to drive digital Customer Service in a standardized, seamless way.



11
12
13 This overall plan has included several individual Customer Service & Operations
14 programs, including installation of AMI, the mobile work management project
15 (PCAD), ongoing upgrades to the ICE program to keep it current and add

1 functionality, and WEC Customer Mobility, a customer mobile phone application.

2 Mr. Prosser discusses the PCAD project in more detail in his Direct Testimony.

3
4 Q. WERE ANY COMPONENTS OF THE CS2022 INITIATIVE COMPLETED PRIOR
5 TO THIS RATE CASE?

6 A. Yes. The Company completed initial implementation of the ICE program at
7 MERC during the course of the 2017 Rate Case, with additional follow-on
8 compliance obligations discussed later in my Direct Testimony. While
9 appropriate management of the ICE platform requires ongoing maintenance and
10 occasional updates to keep up with security threats and improve functionality,
11 MERC had not undertaken a major overhaul in recent years. Total capital costs
12 associated with ICE and allocated to MERC are approximately \$5.2 million, with
13 the majority of the work completed in 2021, and pertained to standardizing and
14 enhancing self-service functionality within the customer information system.

15
16 Additionally, MERC completed the WEC Customer Mobility project in December
17 of 2019. This project involved implementation of the customer mobile application
18 and investments in digital channel infrastructure to support improved interactions
19 with MERC customers, with costs allocated to MERC totaling approximately \$5.9
20 M. This digital channel infrastructure allows for the sharing of data between
21 several source systems and the customer mobile application, such as the outage
22 management system, the billing system, and the customer information system. It
23 also expanded the notifications that customers can choose to receive from

1 MERC, and allows customers to select the channels on which they can choose to
2 receive account information.

3
4 Q. CAN YOU EXPLAIN MERC'S AMI PROGRAM IN MORE DETAIL?

5 A. Yes. Prior to implementing AMI, MERC read the majority of its meter manually,
6 with a combination of contractor and utility employees. Larger Commercial &
7 Industrial meters were read by a near end-of-support (end of 2019) 3G cellular
8 solution. At the same time, the prior manual technology did not offer the data
9 functionality and capabilities of AMI meters, which support more accurate meter
10 reading, improved customer ability to manage energy usage, increased
11 employee safety and fewer truck rolls, and additional monitoring at gas gate
12 stations and pressure monitoring across the gas distribution network.

13
14 The overall AMI project includes several components, including replacement of
15 the existing manual meter reading system with Itron's AMI for all billing meters as
16 part of a network of meters. Data from these meters then feeds into Landis &
17 Gyr's MDM system via Itron's head-end system. Additionally, the deployment of
18 more advanced meters requires updated processes and field procedures to use
19 and maintain AMI, as well as the development of IT capabilities to effectively
20 utilize increasing data analytics capabilities.

1
2 Q. HOW DID MERC DETERMINE THAT AMI WAS AN APPROPRIATE SOLUTION
3 FOR ITS CUSTOMERS?

4 A. As the Company's manual meters aged and lagged behind current technology,
5 and considering that other WEC utilities were already participating in AMI
6 solutions, the Company evaluated several options to address MERC's
7 technology. Specifically, MERC considered three Options:

- 8
- 9 • Option 1: Upgrade All Billing Meters with AMI – Implement AMI for all billing
10 meters, including those for transport and interruptible rate customers along
11 with standard rate customers;
 - 12 • Option 2: Upgrade Select Billing Meters with AMR (drive-by) solution –
13 Implement drive-by solution for all standard rate customers only. Transport
14 and interruptible customers will continue to have telemetry equipment; and
 - 15 • Option 3: Upgrade All Billing Meter with a hybrid of AMI and AMR (drive-by)
16 solution – Implement AMI for densely populated areas and supplement with
17 an AMR solution for locations with no network coverage or sparser
18 populations.
- 19

20 The Company ultimately selected Option 1.
21

1 Q. WHY DID MERC CHOOSE OPTION 1?

2 A. The decision was based on a combination of cost and non-cost considerations.
3 Specifically, Option 2 was estimated to be about \$3M lower in capital spend than
4 Option 1, but the Company estimated that ongoing O&M costs would be higher
5 compared to Option 1 (for MERC, approximately \$0.33 more per meter read).
6 Similarly, Option 3 would require slightly less capital spend but ongoing O&M
7 costs were expected to be higher than a full AMI solution. In addition, Option 3
8 presented the added complexity of having to maintain, operate, and build
9 processes around two reading types (daily and monthly).

10
11 For customers, Option 1 also was likely to result in the most accurate meter
12 reads, reducing the need for billing exceptions for estimated reads as well as
13 cancelled/rebills that result when inaccurate readings are obtained. Automated
14 meter reading also increases customer access to energy data, and reduces the
15 needs for Company personnel to be on customer property. Such benefits not
16 only better serve customers and encourage conservation, but tend to increase
17 customer satisfaction. Additionally, the fewer manual meter reads, the lower the
18 need to dispatch trucks and the lower the risk of safety incidents due to trips,
19 falls, unleashed pets, or other threats to meter readers. AMI meters also have
20 features like meter tamper alerts, which help reduce energy thefts, and provide
21 greater insight into the distribution system by sending data back to the head
22 end—rather than simply gathering individual customer data for the meter reader
23 to gather.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Q. HOW DID MERC SELECT METER AND MDM VENDORS?

A. For evaluation and selection of the meters, MERC utilized a Request for Proposal (“RFP”) process managed and governed through its Supply Chain process. The MDM solution process was somewhat simpler, as WEC already had an MDM solution in place. MERC evaluated the vendor and solution to ensure it would work effectively for MERC’s needs, as well as the efficiencies of WEC affiliates using the same solution across affiliates, and proceeded with that vendor, which allowed MERC to take advantage of lessons learned and established implementation practices between the vendor and the Company.

Q. PLEASE DISCUSS MERC’S TIMELINE FOR AMI IMPLEMENTATION.

A. Initially, MERC anticipated planning and mobilization of the project to begin in 2018 and continue through 2020, with the last meters replaced in third quarter of 2020. However, the project was somewhat delayed by the usual complexities of such projects, and further complicated and delayed by the pandemic and the broad-based supply chain issues that have arisen since that time. Ultimately, MERC is currently completing AMI roll-out in the fourth quarter of 2022, and anticipates completing the project under budget.

Q. HOW DO MERC'S COSTS FOR THE AMI PROJECT COMPARE TO INITIAL ESTIMATES?

A. When MERC embarked on the project in 2018, the Company anticipated incurring a total of approximately \$42.2M (expenditures) over three years. As the project nears completion and as shown in Figure 3 below, it is currently expected to come in at approximately \$40.1M (expenditures), or about 5 percent under budget, even though the project completion was delayed due to the supply chain and some intermittent work interruptions during the COVID-19 pandemic.

**Figure 3 –
MERC AMI Forecast (Expenditures)**

	2018	2019	2020	2021	2022	Total
AMI and related hardware, including installation	\$0	\$9,179,521	\$16,642,615	\$1,275,632	\$1,448,936	\$28,546,704
Integration of AMI with existing systems	906,516	4,663,641	1,074,972	2,878,378	1,992,101	11,515,608
Total	\$906,516	\$13,843,162	\$17,717,587	\$4,154,010	\$3,441,037	\$40,062,312

As of mid-October 2022, MERC had deployed 433,512 of 434,735 AMI meters (approximately 99.7% of planned deployment).

Q. CAN YOU PROVIDE SOME ADDITIONAL INFORMATION ABOUT HOW AMI METERS ARE BEING UTILIZED FOR THE BENEFIT OF CUSTOMERS?

A. Yes. The AMI rollout is projected to not only upgrade and replace the Company's old meters, but also add a series of benefits for MERC's customers, including reduced need for estimated meter reads; improved identification and resolution of meter reading issues; improved (but not fully remote) turn on/turn off services;

1 improved and more detailed energy use data available for customers; enhanced
2 ability to identify energy diversion or theft; reduced costs to obtain off-cycle reads
3 by remotely reading meters; upgraded technology to replace 3G cellular
4 equipment; reduced cancelled bills and rebills due to more accurate readings;
5 increased customer satisfaction as a result of enhanced billing accuracy; and
6 reduced safety incidents during meter reading by eliminating truck rolls and
7 slips/trips/falls/pets, as well as reduced appearances on customer property.
8 MERC anticipates bringing more of these benefits to customers as the AMI
9 rollout is completed in the next few months.

10
11 **C. RIDER AND RIDER-RELATED COST RECOVERY**

12 1. Rochester Project

13 Q. CAN YOU PLEASE DESCRIBE MERC'S ROCHESTER PROJECT?

14 A. The Rochester Project is an expansion of the transportation capacity and
15 reinforcement of MERC's distribution system in and near the City of Rochester,
16 Minnesota. The Commission approved the Project under Minn. Stat.
17 § 216B.1638 (the NGEP statute) by Order Approving Rochester Project and
18 Granting Rider Recovery with Conditions dated May 5, 2017, in Docket No.
19 G011/M-15-895. The Commission also granted MERC a route permit to
20 construct the 13-mile distribution pipeline southwest of the City of Rochester in
21 Docket No. G011/GP-15-858. Mr. Prosser provides additional discussion of the
22 Rochester Project in his Direct Testimony.

1 Q HOW HAS MERC RECOVERED COSTS RELATED TO THE ROCHESTER
2 PROJECT?

3 A. As detailed by Mr. Prosser, in MERC's rate case filed in 2015, Docket No.
4 G011/GR-15-736, the Commission approved recovery of Phase I of the
5 Rochester Project (approximately \$5.6 million). In MERC's 2017 Rate Case,
6 Docket No. G011/GR-17-563, the Commission authorized MERC to recover
7 Phase II Rochester Project costs forecasted for the 2018 test year, and required
8 MERC to account for any difference between the 2018 actual Rochester Project
9 capital expenditures and MERC's capital estimates used in the 2018 test year
10 rate case as a true-up with MERC's NGEP rider true-up calculation. MERC
11 accounted for the difference between the amount of Rochester Project costs
12 included in rate base in Docket No. G011/GR-17-563 and the Company's actual
13 Rochester Project rate base additions in 2018 in its 2019 NGEP Rider True-up in
14 Docket No. G011/M-20-420.

15
16 Since MERC's 2017 Rate Case, the Company has made five NGEP Rider filings,
17 including three petitions for approval of its NGEP true-up reconciliations.⁸ The
18 NGEP Rider has allowed MERC to recover a portion of its annual depreciation
19 expense, property tax expense, and return on capital investment each year.⁹

⁸ These filings are reflected in Docket Nos. G011/M-18-182, G011/M-19-608, G011/M-20-420, G011/M-21-271, and G011/M-22-195.

⁹ In its June 18, 2019 Order in Docket No. G011/M-18-182, the Commission approved MERC's first annual request for NGEP Rider recovery to allow the Company to recover a portion of its forecasted 2019 revenue deficiency for the Rochester Project. The Commission determined the 33% limitation in the

1 Specifically, the NGEPS Statute permits recovery of 33 percent of project costs,
2 which the Commission determined in its June 18, 2019 Order in Docket No.
3 G011/M-18-182 applied to the annual incremental revenue requirement or
4 revenue deficiency rather than to the total project costs.

5
6 In its September 21, 2020 Order in Docket No. G011/M-19-608, the Commission
7 approved MERC's forecasted 2020 NGEPS Rider adjusted to include a rate base
8 offset for property taxes. In its July 15, 2021 Order in Docket No. G011/M-20-
9 420, the Commission approved MERC's forecasted 2021 NGEPS Rider recovery
10 and 2019 Rider true-up.

11
12 Q. WHAT IS THE COMPANY'S REQUEST IN THIS RATE CASE WITH RESPECT
13 TO THE ROCHESTER PROJECT?

14 A. The Company proposes to discontinue recovery of Rochester Project costs
15 through the NGEPS Rider and recover the Rochester Project costs as part of its
16 base rates with implementation of interim rates in this case. When the Company
17 filed its most recent NGEPS Rider petition dated April 22, 2022, the Company
18 noted that it was contemplating filing a 2023 test year rate case, and if filed, the
19 NGEPS Rider would zero out with respect to the unrecovered 13-month average
20 net rate base value of all Rochester Project plant-in-service as of the end of the
21 test year. This unrecovered 13-month average net plant balance would be put

NGEPS Statute applied to the annual incremental revenue requirement or revenue deficiency rather than to the total project costs.

1 into rate base for the test year. Further, the test year will continue to reflect the
2 annual forecasted depreciation expense and property taxes relative to the
3 completed Rochester Project. At the same time of filing this rate case, the
4 Company is also providing an update in the NGEF Rider docket to notify
5 interested parties and make a proposal to set the NGEF Rider surcharge rates to
6 \$0.0000, effective with implementation of interim rates in this proceeding. Mr.
7 Zgonc and Ms. Hoffman Malueg provide details related to the transition of the
8 NGEF Rider costs to base rates in their Direct Testimony.

9
10 2. Gas Utility Infrastructure Project Costs

11 Q. CAN YOU PLEASE DESCRIBE MERC'S GAS UTILITY INFRASTRUCTURE
12 COSTS YOU DISCUSS IN THIS SECTION?

13 A. The gas utility infrastructure costs I discuss in this section are related to (1) right-
14 of-way relocations and (2) the assessment and replacement or modification of
15 facilities required by federal or state agencies. The costs related to federal and
16 state agency requirements include various programs, such as the Company's
17 DIMP, implementation of the Company's Farm Tap Replacement Project and
18 Enhanced Farm Tap Customer Safety Education, and compliance with the
19 Commission's orders with respect to excess flow valves ("EFVs").¹⁰

20

¹⁰ *In the Matter of a Comm'n Investigation into Nat. Gas Utils' Practices, Tariffs, and Assignment of Cost Responsibility for Installation of Excess Flow Valves and Other Similar Gas Safety Equipment*, Docket No. G999/CI-18-41, Order Accepting Compliance Filings, Requiring MERC to Submit Additional Information, Requiring Annual Compliance Reporting, and Taking Other Action at 6 (Jul. 31, 2019).

1 Q, HOW HAVE COSTS FOR THESE TYPES OF PROJECTS BEEN RECOVERED
2 IN RECENT YEARS?

3 A. Projects in the categories described above are eligible for rider recovery under
4 Minn. Stat. § 216B.1635 (the “GUIC Statute”). Under the GUIC Statute, a natural
5 gas utility may seek to recover forecasted gas utility infrastructure costs outside
6 of a general rate case through a rider. MERC first requested and received
7 approval to establish a GUIC Rider in Docket No. G011/M-18-281 by Order dated
8 March 5, 2019. Since then, the Company has filed annual requests for recovery
9 of eligible costs under the GUIC Rider, including those investments and costs
10 over and above what was included in MERC’s authorized base rates as
11 approved in the Company’s 2017 Rate Case. MERC’s annual GUIC Rider filings
12 also include a true-up of prior period GUIC Rider costs. Most recently, on June
13 15, 2022, the Company filed a petition for approval to recover its forecasted 2023
14 costs and 2021 true-up under the GUIC Rider in Docket No. G011/M-22-127
15 (“2023 GUIC Petition”).

16
17 Q. WHAT IS THE CURRENT STATUS OF THE GUIC STATUTE?

18 A. Currently, Minn. Stat. § 216B.1635 contains a sunset of June 30, 2023.
19 Assuming no legislation is implemented to extend or remove the sunset
20 provision, the termination of the GUIC statute effective June 30, 2023 would
21 eliminate the Company’s ability to file a future GUIC Rider petition.

22

1 Q. WHAT IS THE COMPANY'S REQUEST IN THIS RATE CASE WITH RESPECT
2 TO GUIC COSTS?

3 A. In this proceeding, MERC is proposing to zero out the existing GUIC Rider with
4 respect to the unrecovered rate base value of all GUIC project plant-in-service,
5 as described by Mr. Zgonc and discussed further by Ms. Hoffman Malueg. The
6 Company proposes to roll the GUIC costs into 2023 base rates with
7 implementation of interim rates in this case on January 1, 2023. The
8 unrecovered GUIC-eligible plant balance for investments through 2022 are
9 included in rate base in this case. Additionally, as described by Mr. Zgonc, the
10 remaining true-ups for 2020 and 2021 and forecasted for 2022 are being
11 incorporated into base rates. Planned 2023 capital investments and O&M
12 projects that would have been GUIC-Rider eligible are also now included in base
13 rates as part of the 2023 test year. While MERC had presented proposed 2023
14 costs in its 2023 GUIC Rider petition in Docket No. G011/M-22-127, that Petition
15 was withdrawn as a result of this general rate case filing, consistent with the
16 Commission's Order in Docket No. G011/M-19-282, which required MERC to "roll
17 in rider recovered facilities at the beginning of its next general rate case."¹¹

18
19 In its 2023 GUIC Petition, the Company noted that it was contemplating filing a
20 2023 test year rate case, and if filed, MERC would provide an update to its

¹¹ *In re Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Util. Infrastructure Costs Rider Revenue Requirement and Revised Surcharge Factor*, Docket No. G-011/M-19-282, Order Authorizing Rider Recovery and Setting Reporting Requirements at 12 (Order Point No. 12) (June 18, 2020).

1 Petition to notify interested parties and make a proposal to roll planned capital
2 investments and O&M projects into base rates.

3
4 Q. WHAT SPECIFIC GUIC PROJECT COSTS ARE PROPOSED TO BE
5 INCLUDED IN BASE RATES FOR 2023 IN THIS CASE?

6 A. MERC proposes to include the following in base rates:

- 7 (1) Capital investments for the replacement of natural gas facilities located in the
8 public right-of-way required by the construction or improvement of a highway,
9 road, street, public building, or other public work by or on behalf of the United
10 States, the state of Minnesota, or a political subdivision forecasted to be in
11 service in 2023;
- 12 (2) Capital investments for the replacement or modification of existing natural gas
13 facilities including surveys, assessments, reassessment, and other work
14 necessary to determine the need for replacement or modification of existing
15 infrastructure that is required by federal and state agencies forecasted to be
16 in service in 2023; and
- 17 (3) Incremental O&M expense for assessments and other work necessary to
18 determine the need for replacement or modification of existing infrastructure
19 required by federal and state agencies.

20
21 These projects include:

- 22 • Capital costs for the relocation of MERC facilities in the public right-of-
23 way to accommodate public improvement projects;

- Capital costs for the replacement of obsolete materials (DIMP);
- Capital costs for MERC's Farm Tap Replacement Project, which is discussed in greater detail by Mr. Prosser;
- O&M expense to continue the sewer cross bore survey project;
- O&M expense for MERC's mapping project, as discussed in greater detail by Mr. Prosser; and,
- O&M expense for ongoing Farm Tap Enhanced Customer Safety Education, as approved by the Commission's October 6, 2021 Order Approving Phase II of Farm Tap Replacement Project with Conditions in Docket No. G011/M-17-409.

Q. ARE THESE THE SAME PROJECTS THE COMMISSION HAS PREVIOUSLY APPROVED FOR COST RECOVERY UNDER THE GUIC RIDER?

A. With the exception of the Farm Tap Replacement Project and Enhanced Customer Safety and Education, these are the same projects for which the Company received approval from the Commission in Docket No. G011/M-20-405 (the "2021 GUIC Rider"), and for which the Company has requested approval in its 2022 GUIC Rider in Docket No. G011/M-21-232.

Q. HAS THE COMMISSION ISSUED PREVIOUS DECISIONS RELATED TO THE FARM TAP INITIATIVES?

A. Yes. As discussed in the Direct Testimony of Mr. Prosser, on November 30, 2017, the Commission issued an Order Approving Phase 1 of Farm Tap

1 Replacement Project with Conditions, approving MERC's proposed planning and
2 design phase and requiring MERC to evaluate additional alternatives to the
3 proposed replacement project and alternatives for the recovery of associated
4 costs.¹² In its October 6, 2021 Order Approving Phase II of Farm Tap
5 Replacement Project with Conditions in Docket No. G011/M-17-409, the
6 Commission approved MERC's proposal to replace existing farm tap customer-
7 owned fuel lines with utility owned main and service lines located within one mile
8 of the Company's existing distribution system; approved MERC's proposed
9 enhanced customer safety education; and authorized MERC to use deferred
10 accounting for its Phase II Farm Tap Replacement Project costs and to pursue
11 recovery of Farm Tap Replacement Project costs through its GUIC Rider.¹³
12 Further, the Commission's Farm Tap Phase II Order required that, as a condition
13 of authorizing recovery of Farm Tap Replacement Project costs through the
14 GUIC Rider, MERC agree to recover the unrecovered balance of its GUIC Rider
15 via base rates as part of MERC's next rate case. The Company's proposal in
16 this case complies with the Commission's Order.

¹² *In the Matter of a Petition by Minn. Energy Res. Corp. for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting*, Docket No. G011/M-17-409, Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 11 (Nov. 30, 2017).

¹³ *In the Matter of a Petition by Minn. Energy Res. Corp. for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting*, Docket No. G011/M-17-409, Order Approving Phase II of Farm Tap Replacement Project with Conditions (Oct. 6, 2021) [hereinafter the "Farm Tap Phase II Order"]. The Commission's November 30, 2017 Order Approving Phase 1 of Farm Tap Replacement Project with Conditions also authorized deferred accounting for treatment of MERC's Phase 1 costs. *In the Matter of a Petition by Minn. Energy Res. Corp. for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting*, Docket No. G011/M-17-409, Order Approving Phase 1 of Farm Tap Replacement Project with Conditions (Nov. 30, 2017).

1
2 Q. IS IT APPROPRIATE TO INCLUDE THE GAS INFRASTRUCTURE COSTS
3 DESCRIBED ABOVE IN BASE RATES?

4 A. Yes. MERC's proposal to roll the existing GUIC rider projects and costs into
5 base rates is consistent with the Commission's Order in Docket No. G011/M-19-
6 282, which required that MERC "include in its next general rate case filing a
7 discussion of its GUIC rider cost recovery transition to base (and requested
8 interim rate) recovery," and required MERC to "roll in rider recovered facilities at
9 the beginning of its next general rate case."¹⁴ The GUIC project costs proposed
10 to be included in base rates in this proceeding build on the previously-approved
11 2019, 2020, and 2021 GUIC Riders and the Company's pending 2022 GUIC
12 Rider request by continuing MERC's multi-year integrity management and safety
13 initiatives. Continuation of this proactive approach to distribution system safety
14 and integrity management benefits customers by reducing costs through regional
15 planning and implementation, and is necessary into the future.
16

¹⁴ *In re Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Util. Infrastructure Costs Rider Revenue Requirement and Revised Surcharge Factor*, Docket No. G-011/M-19-282, Order Authorizing Rider Recovery and Setting Reporting Requirements at 12 (Order Point Nos. 11 and 12) (June 18, 2020).

1 Q. ARE THE GAS INFRASTRUCTURE PROGRAMS DESCRIBED ABOVE
2 CONSISTENT WITH RECENT LEGISLATION AND STATE POLICY GOALS
3 RELATED TO GREENHOUSE GAS EMISSIONS?

4 A. Yes. In 2021, the Minnesota Legislature enacted the Natural Gas Innovation Act
5 (“NGIA”), establishing a framework for Minnesota’s natural gas utilities to
6 evaluate and propose innovative resources and plans, including biogas,
7 renewable natural gas, power-to-hydrogen, power-to-ammonia, carbon capture,
8 strategic electrification, district energy, and energy efficiency. The NGIA also
9 directs the Commission to initiate a proceeding to evaluate changes to natural
10 gas utility regulatory and policy structures needed to meet or exceed Minnesota’s
11 greenhouse gas emissions reductions goals.¹⁵ MERC’s continued gas
12 infrastructure investments discussed above are compatible with and help to
13 further the objectives of the NGIA by both eliminating known risks for leaks that
14 can contribute to greenhouse gas emissions and ensuring the Company’s natural
15 gas distribution system continues to be safe and reliable to allow for the future
16 integration of innovative resources to meet customer needs.

17
18 Q. WHAT IS THE COMPANY’S PLAN WITH RESPECT TO GUIC COSTS IF THE
19 GUIC STATUTE IS RENEWED OR THE RIDER IS OTHERWISE EXTENDED?

20 A. Depending on the nature of the renewal or rider extension, the Company could
21 seek a new rider in 2023 for 2024 or otherwise evaluate the impact of GUIC rider

¹⁵ See *In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals*, Docket No. G999/CI-21-565.

1 availability on the need for this rate case. That said, MERC recognizes that any
2 continuation of the GUIC Rider cannot result in double recovery of GUIC costs.
3 Consequently, should circumstances around the GUIC rider change, the
4 Company will propose a reasonable approach at that time and based on the
5 specific parameters of any such GUIC extension.
6

7 **V. GAS AFFORDABILITY PROGRAM**

8 Q. WHAT IS MERC'S GAS AFFORDABILITY PROGRAM ("GAP")?

9 A. Minn. Stat. § 216B.16, subd. 15 provides that the Commission must consider
10 ability to pay as a factor in setting utility rates and may establish affordability
11 programs for low-income residential customers in order to ensure affordable,
12 reliable, and continuous service to low-income utility customers. The statute
13 states:

14 Any affordability program the commission orders a utility to implement
15 must:

- 16 1. lower the percentage of income that participating low-income
17 households devote to energy bills;
- 18 2. increase participating customer payments over time by
19 increasing the frequency of payments;
- 20 3. decrease or eliminate participating customer arrears;
- 21 4. lower the utility costs associated with customer account
22 collection activities; and
- 23 5. coordinate the program with other available low-income bill
24 payment assistance and conservation resources.¹⁶
25

¹⁶ Minn. Stat. § 216B.16, subd. 15(b).

1 This describes the purpose of MERC's GAP, which was originally approved by
2 the Commission as a four-year pilot on February 27, 2008, in Docket No.
3 G007,011/M-07-1131, and most recently made permanent in Docket No.
4 G011/M-19-369 by an Order dated January 17, 2020.

5
6 Q. PLEASE DISCUSS THE PERFORMANCE OF MERC'S GAP?

7 A. MERC last filed an evaluation of its GAP on May 31, 2022, in Docket No.
8 G011/M-22-248. As reported in the GAP Evaluation Report, MERC had 617
9 customers enrolled in the GAP in 2021, and the retention rate for the year was
10 52%.

11
12 MERC has also submitted annual GAP reports. The Commission has approved
13 modifications to GAP in the two most recent annual report proceedings,
14 specifically, through the Commission Orders dated September 15, 2021 in
15 Docket No. G011/M-21-224 and August 8, 2022 in Docket No. G011/M-22-154. I
16 will discuss these modifications below. As reflected in MERC's annual GAP
17 report filings and GAP evaluations, MERC's GAP program has lowered
18 customers' arrearage, decreased collection activities, and increased customer
19 payment frequency.

20
21 Based on Commission Orders and feedback, the Company has made several
22 modifications to the GAP filing in recent years. An impact of those changes has
23 been that while GAP enrollment was down somewhat in 2020 and 2021, which

1 MERC has attributed to several other specific customer protections put in place
2 during the COVID-19 pandemic period, it is expected to improve in 2022. I
3 discuss the program modifications and participation levels in more detail below.
4

5 Q. WHAT PROGRAM MODIFICATIONS DID THE COMMISSION APPROVE IN
6 DOCKET NO. G011/M-21-224?

7 A. In its September 15, 2021 Order in Docket No. G011/M-21-224, the Commission
8 ordered MERC to temporarily reduce its affordability threshold from 6% to 3%
9 and to discuss in its next annual GAP filing the effect of the change on the
10 program tracker balance and whether to revert, maintain, or otherwise modify the
11 affordability threshold; whether to reduce the surcharge; and what to do
12 regarding the spending cap. The Commission also required that MERC calculate
13 GAP credits based on actual annual participant natural gas bills and on actual
14 GAP customer annual household income. Finally, the Commission approved
15 MERC's proposal to temporarily suspend the \$750,000 annual spending cap
16 when a permanent modification to its 3% threshold is implemented.
17

18 Q. WHAT WERE THE OUTCOMES OF THESE PROGRAM MODIFICATIONS AND
19 REQUIREMENTS?

20 A. The Commission's requirement that MERC determine GAP credits based on the
21 updated annual participant natural gas bills and GAP customer annual household
22 income resulted in a number of participants no longer qualifying for a GAP
23 affordability credit. In accordance with the Commission's Order, MERC

1 implemented an annual recertification process late in 2021 to review GAP
2 participant data, including gas consumption and annual income reported in
3 customers' Low Income Home Energy Assistance Program ("LIHEAP")
4 applications, along with the most recent gas bills to calculate the revised 3%
5 monthly affordability credit. During the recertification process, all GAP customer
6 accounts were reviewed for receipt of energy assistance, income verification, and
7 to determine customers' past 12 months gas cost data. Customers who met the
8 GAP requirements received an updated affordability credit reflecting the new 3%
9 of income. Customers who no longer met the GAP criteria were removed from
10 the program.

11
12 This change is reflected in the 2021 enrollment statistics noted above, with 617
13 customers enrolled in the program in 2021, with a retention rate of 52% for the
14 year. MERC has historically had consistently high retention rates, with customer
15 enrollment of 1,135 in 2019 (with a retention rate of 93%) and 1,174 in 2020 (with
16 a retention rate of 89%). The recertification process was also discussed in
17 MERC's subsequent annual GAP report in Docket No. G011/M-22-154, and the
18 Company committed to include a description of the certification process and
19 identification of issues in its annual report for 2022, to be filed in 2023.

20

1 Q. WHAT PROGRAM MODIFICATIONS DID THE COMMISSION APPROVE IN
2 DOCKET NO. G011/M-22-154?

3 A. In its August 8, 2022 Order in Docket No. G011/M-22-154, the Commission
4 approved the following Program changes and requirements:

- 5 • MERC shall promote GAP to LIHEAP customers, past-due customers,
6 customers protected by the Cold Weather Rule, and customers with
7 higher levels of arrearages;
- 8 • MERC shall provide quarterly reports, modeled on CenterPoint's
9 required quarterly reports, to describe MERC's outreach activities and
10 to demonstrate increased GAP participation;
- 11 • MERC must remove GAP customers only after two consecutive
12 months' missed payments; and
- 13 • MERC must call GAP customers who miss one monthly payment to
14 remind them they will be removed for missing a second consecutive
15 payment.

16
17 Consistent with the Commission's Order, MERC implemented outreach efforts to
18 promote GAP and LIHEAP to identified customer groups, and has begun
19 submitting quarterly reports regarding ongoing outreach efforts to demonstrate
20 increased GAP participation. As discussed in MERC's September 30, 2022
21 quarterly report filed in Docket No. G011/M-22-154, with the implementation of

1 2022 outreach efforts, MERC is seeing an increase in the number of customers
2 enrolling in both LIHEAP and GAP.¹⁷

3
4 Q. ARE THERE ANY ADDITIONAL REQUIREMENTS RELATED TO GAP THAT
5 YOU ADDRESS?

6 A. Yes. The Commission's March 21, 2019 Order Approving Surcharge and
7 Requiring Further Action in the Company's 2017 Rate Case required the
8 Company, in its next rate case filing, to discontinue directly assigning regulatory
9 costs to the GAP rider, and incorporate into base rates all regulatory costs,
10 including those incurred for GAP evaluations. In accordance with the
11 Commission's Order, the regulatory costs attributable to GAP have been
12 assigned to base rates and will start to be recovered through base rates with
13 Interim Rates effective January 1, 2023. Correspondingly, MERC will
14 discontinue directly assigning regulatory costs to the GAP tracker effective
15 January 1, 2023.

16
17 Q. IS MERC'S GAP CONTINUING TO MEET THE REQUIREMENTS OF MINN.
18 STAT. § 216B.16, SUBD. 15?

19 A. Yes, MERC's GAP continues to meet the objectives set forth in Minn. Stat. §
20 216B.16, subd. 15, as discussed in greater detail in Docket No. G011/M-22-154

¹⁷ See *In the Matter of Minnesota Energy Resources Corporation's Gas Affordability Program 2021 Annual Report*, Docket No. G011/M-22-154, Compliance Filing – Quarterly Reporting on Outreach Activities (Sept. 30, 2022).

1 and G011/M-22-248, MERC's 2021 GAP Annual Report docket and 2019-2021
2 GAP Triennial Evaluation docket, respectively. MERC's GAP has been
3 successful at lowering the percentage of income that participating low-income
4 households devote to energy bills, increasing the frequency of payments by low-
5 income customers, decreasing and eliminating customer arrears, and lowering
6 costs associated with collection activities. Additionally, MERC has recently
7 implemented a number of modifications to its GAP to increase awareness of and
8 participation in GAP and LIHEAP and to reduce the energy burden of low-income
9 households, as discussed above. MERC also continues to exempt low-income
10 customers from the Severe Weather Cost Recovery surcharge, which recovers a
11 portion of costs related to the natural gas price spike caused by the 2021 polar
12 vortex in February 2021.

13
14 Q. IS MERC PROPOSING ANY ADDITIONAL CHANGES TO THE GAP IN THIS
15 RATE CASE?

16 A. No, MERC is not proposing any additional changes.
17

18 VI. PANDEMIC IMPACTS AND COMPANY ACTIONS

19 Q. WHAT ACTIONS HAS THE COMPANY TAKEN WITH RESPECT TO THE
20 IMPACTS OF THE COVID-19 PANDEMIC?

21 A. Since MERC's 2017 Rate Case, MERC's customers and the Company have
22 faced challenges related to the COVID-19 pandemic and its impacts to the
23 economy. In response to the COVID-19 outbreak and declaration of a peacetime

1 emergency by Governor Waltz on March 13, 2020, the Commission initiated
2 Docket No. E,G999/CI-20-375 to address utilities' actions in light of these
3 challenges. Both voluntarily and consistent with the Commission's August 13,
4 2020 Order in that docket, and through work with other parties, the Company
5 implemented the following actions:

- 6 • Suspended residential and small business disconnections for non-
7 payment;
- 8 • Waived late fees for residential and small business customers;
- 9 • Waived reconnection fees, service deposits, late fees, interest, and
10 penalties for residential customers through the duration of the peacetime
11 emergency;
- 12 • Waived service deposits, down payments, interest, late payment charges,
13 or (business hour) reconnection fees through April 20, 2022 for residential
14 and small business customers who have established a payment
15 agreement;
- 16 • Suspended negative credit reporting;
- 17 • Provided periodic reports to keep the Commission and interested parties
18 informed of the Company's actions and status of customers; and
- 19 • Increased customer communications regarding payment plans and bill pay
20 assistance.

21
22 The Company, as authorized by the Commission, did defer certain incremental
23 costs related the COVID-19 pandemic; however, as and for the reasons noted

1 below, MERC's Senior Management has determined that it will not seek recovery
2 of these costs in this rate case.

3
4 Q. HOW DID THE COMPANY MANAGE THE TRANSITION TO RESUME
5 DISCONNECTION AND COLLECTIONS ACTIVITIES FOLLOWING THE END
6 OF THE PEACETIME EMERGENCY?

7 A. The Company filed its transition plan consistent with the Commission's March 8,
8 2021 and May 26, 2021 Orders in Docket No. E,G999/CI-20-375.¹⁸ Under this
9 plan, the Company specified its customer notice and outreach efforts designed to
10 facilitate a smooth transition to normal disconnection and collections activities per
11 the schedule established by the Commission. The intended results were to
12 ensure continuation of utility service while providing customers who need it the
13 flexibility to address prior balances incurred during the peacetime emergency.
14 Under this transition plan, the Company:

¹⁸ The Company's amended transition plan was found complete per the Commission's May 5, 2021 Notice in Docket No. E,G999/CI-20-375.

- Provided notice to customers of financial assistance programs, collection activities, payment requirements, and service disconnection;
- Prohibited disconnections through the transition period (April 30, 2022) for customers with past due balances who have a pending application or have been deemed eligible for energy assistance; and
- Waived service deposits, down payments, reconnection fees, and other financial requirements through the transition period for customers who have established a payment agreement.

As approved by the Commission, the Company began sending disconnection notices beginning June 1, 2021, and service disconnections were allowed to resume as of August 2, 2021.

Q. HOW DID THE PANDEMIC AFFECT CUSTOMER ARREARS AND BAD DEBT EXPENSE?

A. The pandemic and resulting economic conditions led to an increase in customer arrearages, which ultimately leads to an increase in bad debt expense. As of June 30, 2022, MERC's reported accounts receivable arrears were as follows:

	Current	1-30 Days	31-60 Days Past Due	61-90 Days Past Due	91+ Plus Days Past Due	Total
Residential	\$5,818,137.94	\$2,050,719.28	\$1,745,281.62	\$1,493,821.92	\$3,740,283.03	\$14,848,243.79
Commercial	\$2,581,470.44	\$447,117.23	\$125,676.92	\$84,161.61	\$151,634.00	\$3,390,060.20
Industrial	\$846,382.88	\$288,585.01	\$48,425.30	\$25,295.55	\$59,902.96	\$1,268,591.70
Total	\$9,245,991.26	\$2,786,421.52	\$1,919,383.84	\$1,603,279.08	\$3,951,819.99	\$19,506,895.69

1
2 This was a substantial increase in arrears balances compared to prior years, of
3 nearly \$ 2.6 million or 33.7% from 2018 levels.¹⁹ Because MERC was not in a
4 rate case during this period, these expenses were not reflected when the
5 Company's rates were last approved by the Commission. Mr. Zgonc discusses
6 how the Company calculated bad debt expense for purposes of the test year in
7 this rate case.
8

9 Q. ARE THERE OTHER DOCKETS RELATED TO THE IMPACTS OF THE
10 PANDEMIC?

11 A. Yes. The Commission initiated an inquiry into the financial effects of the
12 pandemic on utilities in Docket No. E,G999/CI-20-425, and in Docket No.
13 E,G999/CI-20-427, the Company (jointly with the other utilities) petitioned the
14 Commission for approval to defer expenses resulting from the pandemic in a
15 regulatory asset. In these dockets, the Commission authorized tracking and
16 deferral of COVID-19-related expenses, approved the Company's tracking and
17 reporting methodologies, and required quarterly reporting on these costs.²⁰
18

¹⁹ June 30, 2022 arrears balances were \$10.3 million while 2018 arrears balances were \$7.7 million. While arrears balances are identical to bad debt expense, historical experience indicates that increases in arrears balances leads to an increase in bad debt expense as those past due accounts go through the credit and collections process and are ultimately written off.

²⁰ See the Commission's May 22, 2020 and November 4, 2020 Orders in Docket Nos. E,G999/CI-20-425 and E,G999/CI-20-427, respectively.

1 Q. WHAT TYPES OF COSTS WERE AUTHORIZED TO BE DEFERRED IN THE
2 COVID-19 REGULATORY ASSET?

3 A. The COVID-19 regulatory asset represents deferred amounts directly related to
4 the pandemic and disconnection moratorium. This reflects increased O&M
5 expenses, such as those related to contracted janitorial services and software
6 purchases and IT support for employees working from home, as well as lost
7 revenue from late payment charges waived in compliance with Commission
8 request and directives. These costs are offset by savings in other areas as a
9 result of the pandemic, such as reduced employee travel and reduced use of
10 fleet vehicles.

11
12 Q. HOW WERE AMOUNTS DEFERRED TO THE COVID-19 REGULATORY
13 ASSET DETERMINED?

14 A. The Commission approved the accounting methodology proposed by the Joint
15 Petitioners in Docket No. E,G999/M-20-427, by Order dated November 20, 2020.
16 For each expense category, actual amounts are compared to those authorized in
17 the Company's 2017 Rate Case. Expense in excess of the amounts in the 2017
18 Rate Case were deferred to the COVID-19 regulatory asset. The total deferral
19 amount was \$451,115, a substantial amount for MERC. These costs were
20 provided in the Company's final quarterly report filed August 3, 2022 in Docket
21 No. E,G999/CI-20-427, reflecting costs and offsets through May 31, 2022.

1 Q. IS THE COMPANY REQUESTING RECOVERY OF THESE COSTS IN THIS
2 RATE CASE?

3 A. As noted above, no. Although the Commission permitted deferral for potential
4 future recovery, dependent on the utilities demonstrating that the financial impact
5 was incremental and directly related to the pandemic, MERC has opted not to
6 seek recovery of the deferred amount. MERC recognizes that the pandemic was
7 difficult for all customers, and prefers to focus on the fundamentals driving this
8 rate case at this time. Accordingly, MERC is not seeking recovery of these costs.
9

10 VII. OTHER COMPLIANCE ITEMS

11 A. Improved Customer Experience

12 Q. WHAT IS THE ICE SYSTEM?

13 A. The Improved Customer Experience, or “ICE” system, is a standard process
14 architecture and technology customer information system platform implemented
15 in January, 2016 for MERC and other legacy Integrys utilities.²¹ This
16 implementation resulted in a single system across these utilities, utilizing the
17 latest update of Open-CIS (“Open C”). Open C is used to handle billing, credit,
18 and collections. ICE also replaced and standardized telephone systems
19 (including Interactive Voice Response (“IVR”)), as well as the web-based self-
20 service options for customers.
21

²¹ Wisconsin Public Service Corporation, Michigan Gas Utilities Corporation, The Peoples Gas Light and Coke Company, and North Shore Gas Company.

1 Q. BY WAY OF BACKGROUND, WHAT COMPLIANCE REQUIREMENTS HAS
2 THE COMPANY PREVIOUSLY ADDRESSED WITH RESPECT TO ICE?

3 A. In MERC's 2017 Rate Case, MERC provided information required by Order
4 Points 8 and 9 of the Commission's October 31, 2016 Findings of Fact,
5 Conclusions, and Order in Docket No. G011/GR-15-736. Order Points 8 and 9 of
6 the Commission's Order in Docket No. G011/GR-15-736 state:

7 Order Point 8: MERC shall provide the following information with its initial
8 filing of its next rate case:

- 9 a. An update on the decision process for WEC legacy utilities to
10 implement the ICE system, fully justifying any decision for the
11 WEC legacy utilities not to use ICE;
- 12 b. If a process has been implemented to explore the idea, or an
13 actual timeline has been established for WEC legacy utilities to
14 adopt ICE, MERC shall provide a detailed discussion of the
15 status, along with a proposal to reimburse Minnesota
16 ratepayers for their share of the ICE system (deferred and
17 ongoing costs); and
- 18 c. If MERC does not provide this information in its initial filing in its
19 next rate case, the initial rate-case filing shall be considered
20 incomplete.

21
22 Order Point 9: In the event that WEC decides to implement the ICE
23 system for its WEC legacy utilities prior to MERC filing its next rate case,

1 MERC shall make a filing within 30 days of such a decision, which shall
2 also be no less than 12 months before initial implementation for WEC
3 legacy utilities. Approval by the WEC board of directors shall be
4 considered the point of decision and will trigger the start of the 30 days.
5 The filing should provide details of WEC's implementation plans and a
6 proposal for adjusting the costs paid by MERC's customers for the ICE
7 system to ensure the costs paid by MERC's customers are reasonable. If
8 such a filing is made prior to the next rate case, the Commission can
9 determine, at that time, whether to revise the contents of the filing to be
10 made by MERC in its next case, as discussed above.

11
12 Q. HAS MERC PROVIDED FILINGS TO THE COMMISSION IN DOCKET NOS.
13 G011/GR-15-736 AND G011/GR-17-563 REGARDING THESE ICE
14 COMPLIANCE REQUIREMENTS?

15 A. Yes. On August 9, 2018, MERC submitted a compliance filing reporting that on
16 July 19, 2018, the WEC Board of Directors approved a project entitled "ICE
17 (Open-C) R3" that included the conversion of the We Energies utilities to the ICE
18 platform and implemented revision three ("R3") of Open C across all WEC
19 utilities by mid-2020. The August 9, 2018 compliance filing served to provide the
20 Commission with the 30-days' notice required under Order Point 9 of the
21 Commission's Order in Docket No. G011/GR-15-736. In the August 9, 2018
22 compliance filing, MERC also explained the Company's intent to file an ICE cost-
23 benefit analysis consistent with the Commission's Order in Docket No. G011/GR-

1 15-736 and MERC's proposal in its then-pending rate case in Docket No.
2 G011/GR-17-563, within 90 days of design completion, which was scheduled to
3 be concluded in the third quarter of 2019.
4

5 Q. WHAT ADDITIONAL FILINGS HAS MERC PROVIDED IN DOCKET NOS.
6 G011/GR-15-736 AND G011/GR-17-563 REGARDING ICE COMPLIANCE
7 REQUIREMENTS?

8 A. On October 4, 2019, MERC provided a Compliance Filing in Docket No.
9 G011/GR-17-563 in accordance with Order Point 27 of the Commission's Order
10 in Docket No. G011/GR-17-563, which required that MERC provide the following
11 information in a compliance filing:

- 12 a. the business case, design plans, and implementation plan for
13 extension of ICE to other WEC legacy utilities within 90-days of
14 completion of the exploration project;
- 15 b. a detailed discussion of costs and benefits to MERC of the rollout to
16 other utilities;
- 17 c. a discussion of any work avoided by the WEC legacy utilities due to
18 initial development of the ICE customer platform for legacy Integrys
19 utilities;
- 20 d. a discussion of the extent to which the allocations of costs
21 (according the WEC affiliated interest agreement (the "AIA"))
22 captures the costs and benefits to the participating utilities;

1 e. a cost recovery proposal to return all appropriate amounts to MERC
2 customers if, following roll out to MERC's affiliates, the AIA itself
3 does not ensure that MERC ratepayers do not pay a
4 disproportionate share of ICE.

5
6 MERC notified the Commission that the design phase of the ICE project was
7 equivalent to the "exploration project" referred to in (a) of Order Point 27, and that
8 phase was completed on approximately July 5, 2019. MERC provided the
9 information required under Order Point 27 in Attachment A to its October 4, 2019
10 compliance filing.

11
12 On July 30, 2020, the Minnesota Commerce Department, Division of Energy
13 Resources (the "Department") filed Initial Comments on MERC's October 4, 2019
14 compliance filing. In its Initial Comments, the Department concluded that MERC
15 generally satisfied the requirements of Order Point 27 in the Commission's Order
16 in Docket No. G011/GR-17-563, and recommended that the Commission accept
17 MERC's compliance filing, pending submission of further information from the
18 Company. The Department further stated that its recommendation did not apply
19 to the reasonableness of the overall costs of the CS2022 program, or allocation
20 of those costs to MERC. That analysis will be completed during the
21 Department's investigation period in the Company's next rate case.

1 On August 10, 2020, MERC filed reply comments providing the additional
2 information requested by the Department. On October 15, 2020, the Department
3 filed reply comments stating it did not recommend re-allocation of previously
4 incurred ICE expenses to WEC legacy utilities. On April 20, 2021, the
5 Commission accepted MERC's compliance filing, including its reply comments
6 regarding ICE implementation for WEC legacy utilities. As reflected in the
7 Commission's April 20, 2021 Order, the Company agreed that acceptance of the
8 Company's compliance filing would not pre-judge the overall reasonableness of
9 CS2022 program costs or the relevant allocations. The Company addresses
10 these issues in this rate case, as described earlier in my Direct Testimony.

11 **B. WEC Merger**

12 Q. DID THE COMMISSION ORDER ANY CONDITIONS AS A RESULT OF WEC'S
13 ACQUISITION OF MERC'S PRIOR PARENT, INTEGRYS?

14 A. Yes. I identify each of the conditions adopted by the Commission in Docket No.
15 G011/PA-14-664 in Exhibit ____ (RFS-D), Schedule 3, which also identifies the
16 status of each compliance item and in some instances provides additional
17 information about how the item has been addressed and completed.

18
19 Q. ARE ANY OF THE CONDITIONS DISCUSSED FURTHER IN THIS RATE
20 CASE?

21 A. Yes. While most of the conditions are of general applicability, a few of them may
22 require confirmation of compliance in this rate case. In particular, all or portions
23 of Order Points 2-3, 6, 9, and 11-15 are discussed further in testimony in this

1 proceeding. Because not all merger conditions specify the extent to which
2 further reporting may be required, MERC has worked to identify those of potential
3 interest for this rate case. I also touch on other Order Points to illustrate how the
4 Company operates as part of WEC in the ordinary course of business now that
5 several years have passed since the merger.

6
7 MERC previously addressed compliance with the requirements from Docket No.
8 G011/PA-14-664 in the Company's last two rate cases in Docket Nos. G011/GR-
9 15-736 and G011/GR-17-563. In MERC's 2017 Rate Case, the Commission
10 concluded that MERC had substantially complied with the reporting requirements
11 of the Commission's Order Approving Merger Subject to Conditions in Docket
12 No. G011/PA-14-664. The Commission also amended its order in Docket No.
13 G011/PA-14-664 to remove Order Point 10, which required review of MERC's
14 low-income programs in future rate cases.

15
16 Q. HAS MERC COMPLIED WITH BOTH THE SPECIFIC REQUIREMENTS AND
17 SPIRIT OF THE MERGER CONDITIONS?

18 A. Yes. As an overall rule, many of the conditions are designed to ensure that
19 MERC's customers are insulated from the costs and risks of the acquisition, and
20 a number of conditions have been fulfilled or have expired by their own terms.
21 For example, a number of the compliance requirements are intended to ensure

1 no unreasonable merger transaction costs or changes affect MERC customers.²²
2 Since the 2015 merger, however, MERC has not sought to defer or recover any
3 merger transaction costs in this or any prior proceeding. Nor has WEC
4 downsized subsidiaries,²³ paid severance or early termination costs in relation to
5 the merger,²⁴ or otherwise fundamentally changed the MERC business as it
6 existed at the time of the 2015 merger. While MERC reiterates its commitment to
7 abide by the ongoing conditions set forth in the Commission's WEC/Integrus
8 merger order, it proposes to sunset merger-specific reporting requirements in this
9 rate case given the passage of time since the merger. MERC also proposes to
10 discontinue certain routine post-merger filings, as I discuss below.

11
12 Q. DO OTHER MERC WITNESSES DISCUSS MERGER ORDER POINTS
13 POTENTIALLY RELEVANT TO THIS RATE CASE?

14 A. Yes. Mr. Zgonc addresses Order Point 2, Conditions 2, 4, and 5; Order Point 3,
15 Conditions 14 and 18; Order Point 6; Order Point 11; Order Point 12; and Order
16 Point 14. These Order Points relate to lending, borrowing, and guarantees
17 between MERC and its subsidiaries and parent, potentially applicable conditions
18 from other jurisdictions; and deferral of transition costs.

²² See Order Points 3 (Conditions 3, 8, 22, and 23), 5, 11, and 13.

²³ Order Point 8.

²⁴ Order Point 12.

1 Ms. Kupsh addresses Order Point 9 regarding allocation of costs to MERC and
2 allocation methodologies, and Order Point 15 related to non-subsidization of
3 other WEC entities.
4

5 Q. WHICH INDIVIDUAL MERGER CONDITIONS DO YOU DISCUSS?

6 A. In addition to those referenced earlier in my testimony, I also discuss Order Point
7 3, Condition 9, which requires that certain reports filed with the Illinois Commerce
8 Commission also be filed with the Commission; Order Point 3, Condition 13,
9 which requires filing of all annual credit reviews of the gas companies and WEC
10 Energy Group in the merger docket; and Order Point 3, Condition 20, related to
11 the Public Service Commission of Wisconsin's review of audit reports.
12

13 Q. WHAT IS MERC'S PROPOSAL WITH RESPECT TO THESE CONDITIONS?

14 A. As noted in Exhibit ____ (RFS-D), Schedule 3, MERC proposes to be released
15 from continuing to make the individual filings previously required by these
16 provisions. While credit reports, affiliate interaction information, and such data is
17 available as needed, routine filing requirements have arguably become dated
18 given the number of years since the merger, or are driven by largely inapplicable
19 reporting requirements in other states.
20

1 Q. DOES MERC REQUEST ANY OTHER CHANGES TO WEC MERGER
2 COMPLIANCE REQUIREMENTS?

3 A. Yes. MERC proposes to discontinue specific testimony on merger compliance in
4 future rate cases, effective with the Commission's decisions in this rate case.
5 The WEC/Integrus merger was completed in 2015, and the Company has been
6 operating on a combined basis since that time. For those merger conditions with
7 a specific time horizon for compliance, the specified time has elapsed. Likewise,
8 MERC's operating utility has functioned as part of the combined entity since
9 2015, making regular compliance filings within and outside of rate cases without
10 comment or change. For example, the Company has consistently stated that it is
11 not seeking and has not sought recovery of reorganization and transition costs,
12 has previously demonstrated its accounting for the transaction, and has not
13 reduced the workforce in relation to the merger, as discussed by Mr. Zgonc.

14
15 To be clear, MERC is not proposing to eliminate those non-reporting
16 commitments that are ongoing in nature (such as making books and records
17 available, the prohibition of lending funds to MERC's post-acquisition parent or
18 other regulated subsidiaries absent approval, etc.), but rather to eliminate the
19 merger-specific reporting and filing requirements for rate cases and other
20 dockets in light of the passage of time. If approved, MERC would no longer
21 discuss specific merger-related items in future rate case filings as a general
22 compliance obligation. If there are provisions that the Commission determines
23 should apply to future rate cases, MERC respectfully requests that those

1 individual provisions be specifically identified so that it is not necessary to
2 address all merger conditions in future proceedings.

3
4 Overall, MERC recognizes that it retains the burden of proof with respect to the
5 reasonableness of all merger and non-merger activities and costs, and that it
6 may be called upon in the future to provide information if a particular question
7 arises. This proposal is intended only to reduce and clarify ongoing reporting
8 that may no longer be applicable or needed.

9 10 **VIII. CONCLUSION**

11 Q. PLEASE PROVIDE A SUMMARY OF YOUR CONCLUSIONS RELATING TO
12 THE COMPANY'S REQUEST FOR RATE RELIEF.

13 A. MERC has been incurring significant increases in capital expenditures to support
14 the needs of both new and existing customers. These higher levels of capital
15 investment are expected to continue in 2023 and beyond. The costs to support
16 MERC's growth (return on and of capital) require a modest amount of rate relief
17 over the currently authorized rates, given the time that has passed without a
18 base rate increase since current base rates were established in MERC's 2017
19 Rate Case. MERC has proposed a reasonable equity ratio of 53.0% and
20 provides support for a rate of return of 10.30%. Compliance with earlier
21 Commission orders has also been demonstrated where possible, and the
22 proposed rate design has been based upon a sound cost of service study and

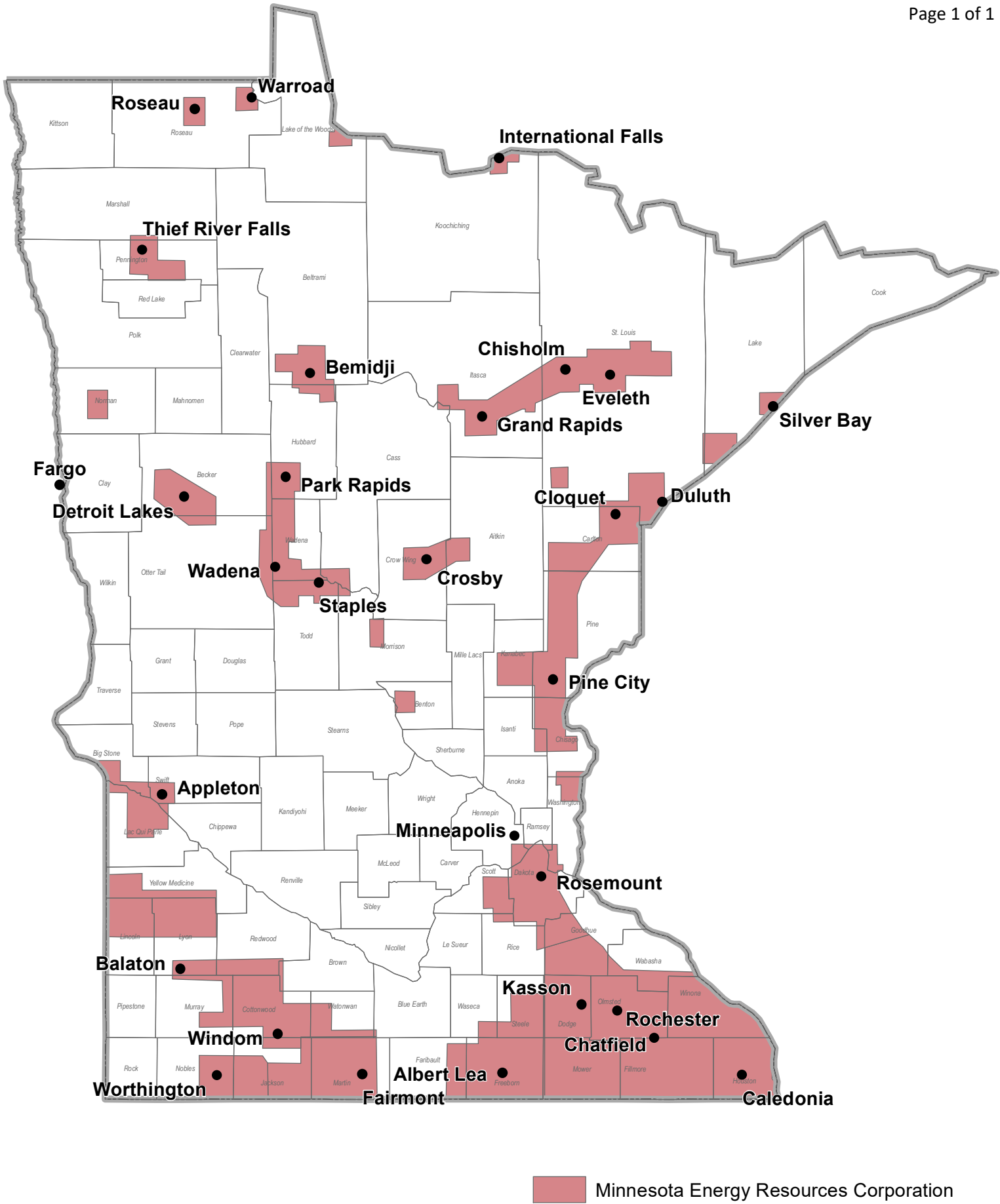
1 analysis. Accordingly, MERC requests that the Commission authorize rate relief
2 and the tariff changes as proposed.

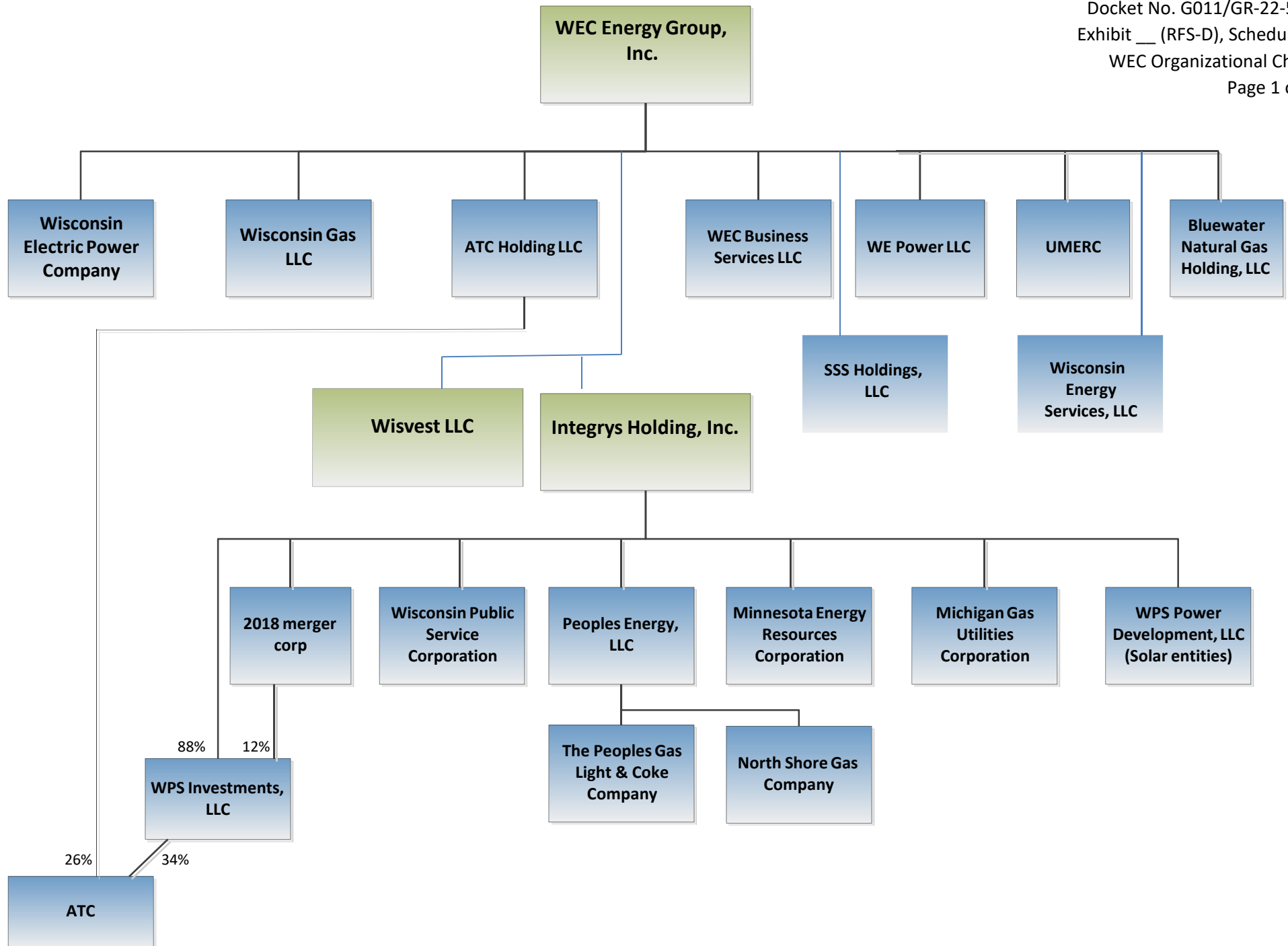
3

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes, it does.

MERC Service Territory





**Conditions Imposed by MPUC Order Approving Merger Subject to Conditions
Dated June 25, 2015 in Docket No.
G011/PA-14-664**

Order Point and Item No.	Condition	Status or Proposed Treatment
2, Attachment A, Condition 1	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.	<p>This item is no longer applicable. Addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.</p> <p>In its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-17-563, the Commission found that MERC had substantially complied with the reporting requirements of the Commission's Order Approving Merger Subject to Conditions in Docket No. G011/PA-14-664 (Order Point 25).</p>
2, Attachment A, Condition 2	MERC commits it will honor all labor existing contracts	MERC has honored its labor agreements; MERC proposes no ongoing specific reporting needed.
2, Attachment A, Condition 3	MERC commits for a period of two years that it will not make any work-force reductions beyond what might occur through attrition.	No longer applicable.

Order Point and Item No.	Condition	Status or Proposed Treatment
2 Attachment A, Condition 4	MERC commits to maintain historic levels of community and charitable involvement.	Ongoing commitment in the ordinary course of business; MERC proposes no ongoing specific reporting needed.
2 Attachment A, Condition 5	MERC commits to maintain the same level of customer service after the Proposed Transaction.	Ongoing commitment in the ordinary course of business; MERC proposes no ongoing specific reporting needed.
2 Attachment A, Condition 6	MERC will not attempt to recover the acquisition premium or the costs of executing the proposed transaction from its utility customers.	This item is no longer applicable. Addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.
2 Attachment A, Condition 7	MERC will maintain or improve its existing service quality and reliability indices over the next two years.	No longer applicable.
2 Attachment A, Condition 8	MERC will not make any material workforce reductions beyond what might occur through attrition for at least two years.	No longer applicable.
2 Attachment A, Condition 9	MERC agrees with the OAG's position that all of the commitments that MERC made in its Minnesota filings are binding.	No further action required.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 1	Identify all transaction, transition, and acquisition premium costs in an accounting system.	This item is no longer applicable. Transition cost savings and transaction costs and accounting were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.
3, Attachment C, Condition 2	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.	No longer applicable.
3, Attachment C, Condition 3	Identify all transaction and transition costs in accounting system.	This item is no longer applicable. Transition cost savings and transaction costs and accounting were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 4	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.	No longer applicable/addressed in Docket No. G011/GR-17-563. As discussed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt, there has been no push-down accounting related to the reorganization, acquisition premium, or transaction costs to MERC.
3, Attachment C, Condition 5	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.	No longer applicable/addressed in Docket No. G011/GR-17-563. As discussed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt, there has been no push-down accounting related to the reorganization, acquisition premium, or transaction costs to MERC.

Order Point and Item No.	Condition	Status or Proposed Treatment
3 Attachment C, Condition 6	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.	No longer applicable. As discussed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt, there has been no push-down accounting related to the reorganization, acquisition premium, or transaction costs to MERC.
3, Attachment C, Condition 7	Allocation of any savings resulting from the proposed reorganization shall flow through to ratepayers.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.
3, Attachment C, Condition 8	Transition costs may be recoverable to the extent the transition costs produce savings.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 9	The Joint Applicants must file a semi-annual compliance report on the ICC's e-Docket system in Docket No. 14-0496, reporting the status of their progress on all conditions imposed by the Commission in this case until all conditions have been satisfied or the Joint Applicants petition the Commission and receive approval to cease such reporting requirement, whichever comes first.	Illinois requirement reflected in Minnesota proceeding. Propose no further ongoing filings in Minnesota docket, given the passage of time.
3, Attachment C, Condition 10	The Joint Applicants shall file a compliance report in Docket No. 14-0496 within 180 days after the close of the Reorganization, with a copy to the Manager of the Commission's Finance Department, that describes the Gas Companies' 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 the Gas Companies' balance sheets as a result of the Reorganization, that the Gas Companies shall file a petition with the Commission seeking Commission approval of the fair value studies and resulting capital structures for the Gas Companies pursuant to Section 6-103 of the Act.	Complete. Submitted December 28, 2015 in Docket No. G011/PA-14-664

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 11	The Joint Applicants must provide to the Manager of the Commission's Accounting Department and file on the ICC's e-Docket system in Docket No. 14-0644 a copy of the signed, executed Final Agreement pursuant to the Commission order in Docket Nos. 12-0273/13-0612 (Cons.) if there are any changes between the Interim Agreement and a Final Agreement.	Illinois requirement reflected in Minnesota proceeding. No longer applicable. The Minnesota Public Utilities Commission-approved affiliated interest agreements have been filed.
3, Attachment C, Condition 12	Wisconsin Energy 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.	Complete. This notice was filed in Docket No. G011/PA-14-664 on July 8, 2015.
3, Attachment C, Condition 13	All annual credit reviews of the Gas Companies and WEC Energy Group published by credit rating agencies shall be filed with the Commission in this docket within 10 business days after being published, and in a manner consistent with the requirements for publication imposed by the copyright holders.	MERC proposes to terminate ongoing filings related to this condition. The Company has submitted credit reports in accordance with this item in Docket No. G011/PA-14-664 since 2015.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 14 (as modified)	Prohibit MERC from loaning funds to or borrowing funds from its post-acquisition parent or other regulated subsidiaries except to the extent that such borrowing arrangements existed prior to approval of the Proposed Transaction or the transaction (i.e. the borrowing arrangement) costs less than other MERC alternatives.	See November 2, 2016 Compliance Filing in Docket No. G011/PA-14-664. As discussed in the Direct Testimony of Mr. Joseph Zgonc, MERC obtains short-term debt from Integrys Holding under an existing affiliated interest agreement approved by the Commission in 2010 and modified in Docket No. G011/AI-17-303 and has external long-term debt.
3, Attachment C, Condition 15	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.	Complete. Extension submitted December 22, 2015; report submitted July 1, 2016 in Docket No. G011/PA-14-664
3, Attachment C, Condition 16	WEC Energy 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 WPSC, within 30 days of the plan being developed, or at least 30 days prior to any customer service policy changes.	Complete. Notice provided October 6, 2015 in Docket No. G011/PA-14-664, with subsequent updates October 21, 2015 and in Docket Nos. G011/GR-15-736 and G011/GR-17-563.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 17	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.	Complete. See December 30, 2015 Compliance Filing in Docket No. G011/PA-14-664
3, Attachment C, Condition 18	The Gas Companies shall be prohibited from guaranteeing any obligations of their nonutility affiliates.	Ongoing commitment in the ordinary course of business; MERC proposes no further reporting needed.
3, Attachment C, Condition 19	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.	No longer applicable. The Minnesota Public Utilities Commission-approved affiliated interest agreements have been filed with the MPUC.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 20	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. WEC Energy 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 requirement, with reports solicited by and provided to Wisconsin regulators but not the Company. MERC has continued to provide its internal annual Audit Reports in Docket No. G011/AI-17-136.
3, Attachment C, Condition 21	The Commission shall as a condition of acquisition approval take continuing jurisdiction over the service company structure.	MERC agrees the Commission has continuing jurisdiction. MERC submits that no ongoing, specific reporting is necessary to confirm.
3, Attachment C, Condition 22	WEPCO, WG and WPSC 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.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.

Order Point and Item No.	Condition	Status or Proposed Treatment
3, Attachment C, Condition 23	WEPCO, WG, and WPSC can recover acquisition-related transition costs from the Wisconsin retail jurisdiction, only if and to the extent such costs are: (a) incurred by or allocated to each of the utilities (each utilities portion or share of acquisition-related transition costs), (b) associated with financial benefits that each utility's ratepayers will receive as a result of the acquisition, and (c) the acquisition-related savings realized by each utility's ratepayers are equal to or greater than its acquisition-related transition costs.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.
4	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.	No longer applicable.
5	MERC may request recovery of transition costs if and only to the extent that MERC can demonstrate that the transition costs product acquisition-related savings that are greater than the transition costs.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.

Order Point and Item No.	Condition	Status or Proposed Treatment
6	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.	There are no impacts from other jurisdiction acquisition conditions in this rate case. Given the passage of time since the merger transaction conditions were imposed by WEC jurisdictions, MERC proposes that no further reporting should be needed unless there is a change with a cost impact on MERC.
7	All books and records of all entities in the corporate structure, including the service company, shall be readily available for Commission and Department staff review in a reasonable manner, subject to approval by the Commission.	Books and records will remain available in the ordinary course of business; however, MERC submits that future reporting on availability be discontinued.
8	If, in the future, Wisconsin Energy Group or its subsidiaries are downsized 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.	Not applicable; no downsizing has occurred as noted in the Direct Testimony of Mr. Richard Stasik.

Order Point and Item No.	Condition	Status or Proposed Treatment
9	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.	This item is addressed in the Direct Testimony of Ms. Tracy Kupsh. MERC acknowledges the Commission's continuing authority to approve allocation methodologies and factors.
10	The Commission requests that the parties review MERC's Low Income Programs in future rate cases, to ensure that the programs continue to produce optimal benefits.	No longer applicable. In Docket No. G011/GR-17-563, the Commission amended the Order Approving Merger Subject to Conditions in Docket No. G011/PA-14-664 to remove Order Point 10 requiring review of MERC's low income programs in future rate cases. See Findings of Fact, Conclusions, and Order, Order Point 26 (Dec. 26, 2018).

Order Point and Item No.	Condition	Status or Proposed Treatment
11	MERC shall not defer transition costs.	As discussed in the Direct Testimony of Mr. Joseph Zgonc and addressed in MERC's prior rate case proceedings in Docket Nos. G011/GR-15-736 and G011/GR-17-563, MERC has not deferred transition costs related to the merger.
12	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 costs is an unrecoverable transaction cost or a transition cost.	No severance or early termination costs have resulted from the merger, as discussed by Company witness Mr. Joseph Zgonc. MERC proposes condition is no longer applicable given the passage of time since the merger transaction occurred.
13	MERC may request recovery of transition costs only to the extent that MERC can demonstrate that the transition costs produce acquisition-related savings that are greater than the transition costs.	This item is no longer applicable. Transition cost savings were addressed in MERC's 2017 Rate Case in Docket No. G011/GR-17-563 in the Direct Testimony of Mr. Seth DeMerritt.

Order Point and Item No.	Condition	Status or Proposed Treatment
14	MERC shall request and obtain Commission approval pursuant to Minn. Stat. § 216B.48 and/or Minn. Stat. § 216B.49 before it includes any debt provided by its parent companies in its capital structure.	Completed or addressed in ongoing affiliated interest agreements, as noted in Direct Testimony of Mr. Zgonc. See April 19, 2017 Petition filed in Docket No. G011/PA-14-664 and G011/AI-17-303; MPUC Order approving affiliated interest borrowing agreement (Sept. 27, 2017) in Docket No. G011/AI-17-303.
15	In its performance of services, the service company: (a) shall follow applicable federal and state regulation, including codes and standards of conduct; (b) shall not give one or more entities in the corporate structure a competitive advantage in relevant markets; (c) shall not subsidize WEPCO, WG, and/or WPSC or cause MERC to subsidize an affiliate; and (d) may include a return on its net assets at a rate no higher than the appropriate weighed cost of capital for MERC.	Addressed in the Direct Testimony of Ms. Tracy Kupsh. MERC proposes to stop specifically reporting on these items in future cases unless any of the items is triggered/violated.

Order Point and Item No.	Condition	Status or Proposed Treatment
16	For the next five years, MERC shall maintain a detailed record of the description and amount of each of its 2014 corporate costs allocated from its parent company or affiliates.	No longer applicable.
17	Within the next five years, MERC shall demonstrate that no part of any requested rate increase is a result of the merger.	No longer applicable.
18	MERC shall report, for five years, any operation changes in Minnesota, including any personnel reduction or reorganization of field operations that could have more than a de minimis impact on service quality.	No longer applicable.
19	Within 90 days of closing, MERC shall file the accounting entries that recorded the merger. This filing shall include the description, amount, and FERC account name and number for each item, including the actual account entries for the merger-related costs.	Complete. This filing was submitted in Docket No. G011/PA-14-664 on September 29, 2015.