Docket 07-0361
Exhibit 4.2

SEP 10 2007

MINNESOTA
DEPARTMENT OF
COMMERCE

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September 7, 2007

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce**
Docket No. G007,011/AI-07-779

Dear Dr. Haar:

Attached are the *Comments* of the Minnesota Department of Commerce (Department) in the following matter:

A Request By Minnesota Energy Resources Corporation (MERC) For Approval Of An Affiliated Interest Agreement Related To The Formation And Operation Of Integrys Business Support, LLC.

The petition was filed on June 8, 2007 by:

Michael J. Ahern
Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402-1498

The Department recommends that the Minnesota Public Utilities Commission (Commission):

- **approve** the Master AIA on the condition that MERC maintain records that support the Gas Group's decisions on the prices involved in the gas purchasing transactions;

- **require** MERC to petition for approval from the Commission prior to an extension of Gas Group's centralized gas procurement service to any non-regulated affiliates;

- **put** MERC on notice that it should be prepared to demonstrate in the Company's next general rate case that the General/Corporate Allocation method provides similar results compared to the Commission's preferred general allocation method, or that the Company's method better serves the public interest; and

- **make** no finding on the reasonableness of the cost allocation methodologies set forth in the Master AIA at this time.

The Department is available to answer any questions the Commission may have.

Sincerely,

Michelle St. Pierre

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/ja
Attachment

# BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

## COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE

## DOCKET NO. G007,011/AI-07-779

### I. SUMMARY OF MERC'S PETITION

### *A. FORMATION OF CENTRALIZED SERVICE COMPANY*

Effective February 21, 2007, Peoples Energy Corporation (PEC), a Chicago, Illinois electric and natural gas utility holding company, became a wholly-owned subsidiary of WPS Resources Corporation (WPSR) in a merger transaction (the Merger). At that time, WPSR changed its name to Integrys Energy Group, Inc. (Integrys). Through the process of obtaining the Wisconsin and Illinois Merger approvals, Integrys agreed to propose the formation of a service company. Thus, Integrys Business Support, LLC (Integrys Support) was formed. According to Minnesota Energy Resources Corporation (MERC or the Company), since Integrys is a holding company under the Public Utility Holding Company Act of 2005 (PUHCA 2005), Integrys Support will be a "centralized service company"[1] subject to oversight and regulation by the Federal Energy Regulatory Commission (FERC) but FERC pre-approval is not required for the commencement of operations.[2]

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[1] Under FERC regulations, a "centralized service company" means "a company that provides such services as administrative, financial, managerial, accounting, recordkeeping, legal, or engineering services (typically for a charge) to other companies in the same holding company system." See C.F.R. § 367.1 (a) (7); see also 18 C.F.R. § 367.1 (a) (45). Filing, page 5, footnote 8.

[2] Prior to the enactment of PUHCA 2005 (and the concurrent repeal of PUHCA 1935), the Securities and Exchange Commission (SEC) was responsible for evaluating the reasonableness of the costs of services provided by centralized service companies to public utilities within a holding company system. The Company states that under PUHCA 2005, the SEC's oversight authority has now been vested, albeit on a more limited basis, in the FERC. Further, the FERC has retained the SEC's "at costs" standard for services or goods provided by centralized service companies to FERC-regulated public utilities. Filing, pages 5-6.

Further, Integrys Support's employees will include officers of the holding company itself, "Gas Group" employees who will provide administrative and general services to Integrys' five gas utilities, External Affairs personnel, and the approximately 800 employees across eight functional departmental units whose executives report directly to Mr. Thomas A, Nardi, Chairman and President of Integrys Support (who in turn reports to Mr. Larry W. Weyers, Chairman and CEO of Integrys).[3]

*B. THE MASTER AIA*

MERC requests approval of a Master Affiliated Interest Agreement (Master AIA) between Integrys Support and its regulated utility affiliates for the provision of shared services, goods and property provided to or obtained from MERC and five other regulated entities within the Integrys holding company system:

- Wisconsin Public Service Corporation's (WPSC), an electric and natural gas utility;
- Upper Peninsula Power Company, an electric utility;
- Michigan Gas Utilities Corporation (MGUC), a natural gas utility;
- Peoples Gas Light and Coke Company (PGL), a natural gas utility; and
- North Shore Gas Company (NSG), a natural gas utility.

Under the Master AIA, Integrys Support will provide a wide range of services such as:

- administrative services,
- corporate development,
- corporate secretary,
- environmental,
- executive management,
- external affairs,
- financial services,
- human resources,
- information technology,
- legal services,
- supply chain,
- gas engineering,
- gas supply, and
- customer relations.[4]

[3] Filing, Attachment 2, page10.
[4] These services are listed and described in part on the Company's Attachment 1, page 16.

However, the Company states that "Integrys Support will not provide gas engineering, gas supply, and customer relations services to any of its non-regulated affiliates."[5]

According to MERC, as a general rule, Integrys Support will own or lease the assets used to provide services to its affiliates. Integrys Support will also own or lease any assets that will be utilized by more than one affiliate. Within this category, if one affiliate is the main or exclusive user of the asset, the affiliate will own that asset. Additionally, assets considered to be integral parts of the work space will be owned by the entity with the most employees at that location.[6] In most cases, assets that are being transferred[7] to Integrys Support are currently owned or held by PEC, WPSC, or PGL. No MERC assets are being transferred to Integrys Support.[8]

The Company's Attachment 2 provides Integrys and WPSC's application for approval and pre-filed testimony with the Public Service Commission of Wisconsin. In addition, related approval and waiver filings were made with the Michigan Public Service Commission and the Illinois Commerce Commission (ICC).[9]

Regarding other affiliated interest agreements, MERC has two affiliated interest dockets pending a Minnesota Public Utilities Commission (Commission) decision. On July 20, 2006, MERC filed a petition (Docket No. G007,011/AI-06-1052 or 06-1052 docket) for approval by the Commission of an Affiliated Interest Agreement between WPSR and its four public utility subsidiaries (WPSR AIA). Subsequently, on October 13, 2006, MERC filed a petition for approval of its WPSC Gas Supply (GS) Procedures manual[10] (Docket No. G007,011/AI-06-1416 or 06-1416 docket). On March 5, 2007, MERC filed updates in these two dockets to add PGL and NSG to the agreements following the Merger.

As to why the Master AIA is in the public interest, MERC states that the centralized service company:

- will be the most effective way for MERC and Integrys' other subsidiaries to efficiently share costs associated with common processes, systems and personnel over a broader customer base; and

[5] Filing, page 4, footnote 4.
[6] Filing, pages 4-5.
[7] Assuming a January 1, 2008 operational start-up date for Integrys Support, the actual initial transfer of assets will be based on values determined as of December 31, 2007.
[8] Filing, page 5. Transfers of assets from PEC or Integrys will go through WPSC. WPSC will not transfer any real property to Integrys Support, other than building space which will be leased to Integrys Support at fair market value. Filing Attachment 2, page11, footnote 9.
[9] The ICC filed Direct Testimony on August 24, 2007 related to this case in Docket No. 07-0361. The Department does not oppose ICC Staff's recommendations.
[10] The GS Procedures is a manual of standards of conduct or rules for capacity release or opportunity sales rather than a signed contract. However, prior to entering into these transactions, affiliates execute a written contract with WPSC.

- will facilitate the achievement of Merger-related synergy savings that customers of all Integrys subsidiaries will enjoy, and which benefits were a primary basis for the regulatory pre-approvals that were obtained for the Merger.[11]

Regarding the amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information that will be used to determine the cost or price, MERC states:

> Services are provided "at cost," including direct and indirect labor and overheads among other cost loaders; Integrys Support will recover all of the costs of providing these services by direct billing whenever practicable and, where direct billing is not practicable, pursuant to cost allocation methodologies described on Exhibit C of the AIA. The cost of providing these services will be charged and recovered by Integrys Support such that each service taker is paying for each service "at cost."[12]

Further, costs incurred by Integrys Support will be allocated through a tiered approach: 1) directly assigned, 2) using cost/causation principles, and 3) using broad general allocation factors.[13] MERC states that the Direct Testimony of Ms. Linda M. Kallas and Mr. Michael A. Herman included in its Attachment 2 describes that the proposed methodology is in conformance with the principles adopted by the Commission in Docket No. G,E999/CI-90-1008 docket as amended. MERC also states the following about the cost allocation in the Master AIA:

> To the extent that cost allocations contained in the AIA go beyond the Commission's principles, they produce similar results as would allocations following the recommended cost allocation principles and also better serve the public interest—thus also meeting factors 3.c, and 3.d of the March, 1995 Order in Docket No G,E999/CI-90-1008.[14]

Additionally, MERC states that competitive bidding is not available to obtain the unique bundle of services. However, "MERC and its regulated affiliates may purchase such bundle of services from another provided if it is demonstrated to Integrys Support that the other provider can provide a comparable bundle of services at a lower all-in price than Integrys Support, and further that the provision of such services by a provider other than Integrys Support will provide an overall benefit to the Integrys holding company system."[15]

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[11] Filing, page 9.
[12] Filing, pages 10 and 11.
[13] Filing, page 11.
[14] Filing, page 12.
[15] Filing, page 13.

In response to whether the affiliate would have access to customer information, the Company states that Integrys Support will follow applicable state and federal regulations. Specifically, all parties must treat information obtained from or regarding the other parties as confidential and shared only on a need to know basis to perform under the Master AIA.[16]

MERC requests Commission approval before the end of November 2007 since Integrys and its affiliates are striving for Integrys Support to be operational by January 1, 2008.

## III. DEPARTMENT ANALYSIS

### *A. BACKGROUND*

In its June 1, 2006 Order, the Commission approved Aquila, Inc.'s July 1, 2006 sale of Aquila Networks-PNG's and Aquila Networks-NMU's Minnesota operations to MERC.[17] MERC is a subsidiary of WPSR and MERC-PNG and MERC-NMU are divisions within MERC. WPSR is a public utility holding company. At the time of the sale, WPSR had nine first tier wholly owned subsidiaries including MERC and MGUC. With the addition of PGL and NSG in the Merger, Integrys now has six regulated affiliates with nearly 1.7 million natural gas customers across a four-state region, as well as 481,000 electric customers in Wisconsin and Michigan.

Integrys' non-regulated business operations are primarily conducted by its wholly-owned subsidiary Integrys Energy Services, Inc. (Integrys Energy) (f/k/a WPS Energy Services, Inc. and ESI), and include the provision of non-regulated natural gas, electricity and alternate fuel supplies, as well as energy management and consulting services, to retail and wholesale customers in the U.S. and Canada. Other indirect, non-regulated subsidiaries of Integrys include Peoples Energy Services Corporation (PESC), Peoples Energy Resources Company, LLC (PERC) and Peoples Energy Production Company (PEP). According to the Company, PESC and PERC are in the process of consolidating and Integrys is in the process of divesting its interest in PEP.

### *B. AFFILIATED INTEREST FILING REQUIREMENTS*

As an affiliated interest agreement, the Master AIA between Integrys Support and its public utility subsidiaries must comply with Minn. Stat. §216B.48 and Minn. R. 7825.2200 (see Department Attachment 1 for the requirements). The statute and rule include requirements for a utility to:

- file for Commission approval of transactions with the affiliated interest; and
- show that such transactions are reasonable and consistent with the public interest.

[16] Filing, page 13.
[17] See the Commission's *ORDER APPROVING SALE SUBJECT TO CONDITIONS* in Docket No. G007,011/PA-05-1676 (05-1676).

Minnesota Statute §216B.48, subd. 3, provides that the utility carries the burden of proving the reasonableness of the contract or arrangement.

The Department reviewed the filing to determine if MERC satisfied the affiliated interest filing requirements. The Department concludes that the Company provided information for each category as required by Minn. R. 7825.2200, subd. B, and in Docket No. E,G999/CI-98-651. However, at this time, MERC has not shown the reasonableness of the proposed allocation methodologies in the Master AIA. The Department's review of the reasonableness of the Master AIA is discussed below.

### *C. DETERMINATION OF REASONABLENESS AND PUBLIC INTEREST*

Minnesota Statute 216B.48, subd. 3, provides that the Commission shall approve a contract or agreement with an affiliated interest upon the utility demonstrating that the contract or agreement is reasonable and consistent with the public interest. Related to the public interest, the Department discusses below the pending affiliated interest agreements, the proposed change in centralized gas procurement service provider, and the proposed General/Corporate allocator.

#### *1. Prior Agreements--WPSR AIA and GS Procedures Manual*

As mentioned above, MERC has filed two affiliated interest dockets which are pending a Commission decision. In its November 20, 2006 *Comments*,[18] the Department recommends that the Commission approve the WPSR AIA with the following modifications:

- require MERC to limit its Category 2 services to administrative and corporate costs that are difficult to bid out and more cost effective for an affiliate to do than a third party;

- put MERC on notice that it should be prepared to demonstrate in the Company's next rate case that its Category 1 allocation method provides similar results compared to the Commission's preferred general allocation method, or that the Company's method better serves the public interest; and

- make no finding on the appropriateness of the cost allocation methodologies set forth in the Agreement at this time.

Additionally, in its December 6, 2006 *Comments*,[19] the Department recommends that the Commission:

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[18] Docket No. G007,011/AI-06-1052.
[19] Docket No. G007,011/AI-06-1416.

- approve the centralized gas procurement arrangement including the GS Procedures on the condition that MERC maintain records that support WPSC's decisions on the prices involved in the transactions; and

- require MERC to petition for approval from the Commission prior to an extension of WPSC's centralized gas procurement service to any non-regulated affiliates.

In its filing, MERC states that it continues to seek approval of the WPSR AIA and its GS Procedures manual since it governs the relationships between MERC, WPSR and WPSR's other utility operating company subsidiaries, from MERC's commencement of operations (July 1, 2006) through the present. Further, MERC requests that the WPSR AIA and GS Procedures manual remain in effect after Commission review and approval of the Master AIA as there are certain inter-company services that cannot efficiently or cost-effectively be provided by a centralized service company.

In many respects, WPSC was the "service company" of the pre-Merger WPSR holding company system since WPSC provides the majority of shared services under the WPSR AIA until the Master AIA is implemented. However, the Company is not proposing to amend the WPSR AIA in order to remove the various services that will no longer be provided by WPSC or the other service providers in 2008. Integrys and MERC believe that it would be prudent to "let the smoke clear" before officially modifying these or any other affiliated interest agreements to reflect the commencement of Integrys Support operations.[20]

The Department concludes that MERC's decision to continue to seek approval of the WPSR AIA and its GS Procedures manual is reasonable. Also, modifying these affiliated interest agreements as needed in the future is reasonable. Additionally, upon review of the Master AIA, the Department continues to support (sees no reason to change) its November 20, 2006 and December 6, 2006 recommendations and, thus, continues to make the same recommendations in the above two related affiliated interest dockets, Docket Nos. G007,011/AI-06-1052 and G007,011/AI-06-1416.

### 2. *The Gas Group*

The Integrys Support "Gas Group" will provide gas engineering, gas supply (Administrative and General and ministerial) services, and gas customer relations services such as meter reading, billing, call center operations, customer relations and market research, only to the regulated operating utilities.[21] The Gas Group will not own any gas storage assets, gas supply, or pipeline transportation contracts. These contracts and assets will continue to be owned separately by the utility that contracted for those services or that own the storage assets. Each operating company

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[20] Filing, page 8.
[21] Linda M. Kallas' June 8, 2007 Direct Testimony provided to the Public Service Commission of Wisconsin, Company Attachment 2, page 7.

will continue to select and maintain its own separate portfolio. Integrys Support will manage these various commodity and capacity contracts.[22]

Under the current WPSR AIA, WPSC is providing centralized gas procurement services to itself as well as to MERC, MGUC, PGL, and NSG. Under the Master AIA, the Gas Group will provide centralized gas procurement services to the same gas utilities. Thus, the Department's conclusion is the same as stated in the 06-1416 docket: The proposed centralized gas purchasing arrangement in conjunction with the GS Procedures manual is reasonable and consistent with the public interest, as long as adequate records are maintained to allow Commission oversight.[23]

Therefore, the Department recommends that the Commission condition approval on a requirement that MERC maintain records that support the Gas Group's decisions on the prices involved in the gas purchasing transactions. Without such documentation and record retention, the centralized gas procurement services may not be in the public interest. As it did in the 06-1416 docket, in order to protect ratepayers from higher costs, the Department also recommends that the Commission require MERC to petition for approval from the Commission prior to an extension of the Gas Group's centralized gas procurement service to any non-regulated affiliates.

### 3. *General/Corporate Allocator*

Integrys Support's General/Corporate allocator is described in the Master AIA as follows:

> Based on an equal weighting of assets (excluding hedge assets and goodwill) and O&M costs (excluding fuel costs) for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service). This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.[24]

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[22] Linda M. Kallas' June 8, 2007 Direct Testimony provided to the Public Service Commission of Wisconsin, Company Attachment 2, page 18.

[23] See the Department's December 6, 2006 *Comments* in the 06-1416 docket, pages 6 and 7 for reasons why the centralized gas purchasing arrangement in conjunction with the GS Procedures manual is reasonable and consistent with the public interest.

[24] Filing, Attachment 1, page 23.

The General/Corporate Allocation Factor will be used for the allocation of costs across the Integrys holding company system in cases where a service provides system-wide benefits, or in any event where the cost is driven by the holding company system as a whole rather than any particular entity.[25]

The proposed General/Corporate Allocation methodology does not follow the Commission recommended general allocation method between regulated and non-regulated activities.[26] As stated above, MERC believes that to the extent that cost allocations in the Master AIA go beyond the Commission's principles, they produce similar results as would allocations following the recommended cost allocation principles and also better serve the public interest. However, the Company has not provided substantiating evidence to support these claims. Further, the allocation methodologies do necessarily demonstrate that the ratios to be used in a future general rate case are reasonable.

Therefore, the Department recommends that the Commission put MERC on notice that it should be prepared to demonstrate in the Company's next general rate case that the General/Corporate Allocation method provides similar results compared to the Commission's preferred general allocation method, or that the Company's method better serves the public interest. The Department also recommends that the Commission make no finding on the reasonableness of the cost allocation methodologies set forth in the Master AIA at this time.

## III. CONCLUSION AND RECOMMENDATION

Based upon its investigation, the Department concludes that the proposed Master AIA is reasonable and consistent with the public interest, as long as adequate records are maintained to allow Commission oversight, but that the Company has not shown the reasonableness of the proposed allocation methodologies. Thus, the Department recommends that the Commission:

- approve the Master AIA on the condition that MERC maintain records that support the Gas Group's decisions on the prices involved in the gas purchasing transactions;

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[25] The Company's AIA, Exhibit B, shows the services and expected allocation factors to be used (e.g., square footage, number of employees, General/Corporate, etc.). The following services expect to use the General/Corporate allocation factor for a portion of the costs where no cost/causation identified:

- external affairs;
- financial affairs; and
- legal services.

[26] Integrys' non-regulated subsidiaries will take service from Integrys Support under a separate but substantially similar affiliated interest arrangement entitled "Master Non-regulated Affiliated Interest Agreement". A copy of the non-regulated AIA was submitted on June 22, 2007 for information purposes. The reason given for a separate non-regulated AIA is because in some cases there are differences in the types of services that will be provided by Integrys Support and having a separate agreement for the non-regulated affiliates may allow for future flexibility.

- require MERC to petition for approval from the Commission prior to an extension of Gas Group's centralized gas procurement service to any non-regulated affiliates;

- put MERC on notice that it should be prepared to demonstrate in the Company's next general rate case that the General/Corporate Allocation method provides similar results compared to the Commission's preferred general allocation method, or that the Company's method better serves the public interest: and

- make no finding on the reasonableness of the cost allocation methodologies set forth in the Master AIA at this time.

/ja

Minnesota Rules 7825.2200, subd. B, sets forth the records that must be included with the utility's filing. Further, the Commission endorsed filing procedures for affiliated interest filings in its September 14, 1998 *Order Initiating Repeal of Rule Granting Generic Variance, and Clarifying Internal Operating Procedures* in Docket No. E,G999/CI-98-651. The requirements include:

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.
5. A descriptive summary of the pertinent facts and reasons why such contract or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.
7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.
10. The filing must be verified.

STATE OF MINNESOTA )
) ss
COUNTY OF RAMSEY )

**AFFIDAVIT OF SERVICE**

I, **Sharon Ferguson**, being first duly sworn, deposes and says: that on the 7th day of **September, 2007**, served the **Minnesota Department of Commerce Comments**

**MN DOC DOCKET NUMBER: G007,011/AI-07-779**

**XX** by depositing in the United States Mail at the City of St. Paul, a true and correct copy thereof, properly enveloped with postage prepaid

**XX** electronic filing

/s/Sharon Ferguson

Subscribed and sworn to before me

this 7th day of September, 2007

/s/ Clodetta I. Jenson
Notary Public-Minnesota
Commission Expires 1/31/2009

**G007,011/AI-07-779**

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September 17, 2007

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
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Suite 350
St. Paul, MN 55101

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation For Approval of an Affiliated Interest Agreement Related to the Formation and Operation of Integrys Business Support, LLC
Docket No. G007,011/AI-07-779

Dear Dr. Haar:

Enclosed for filing please find the Reply Comments of Minnesota Energy Resources Corporation ("MERC") in the above referenced matter.

Please feel free to contact me at (612) 340-2881 if you have any questions regarding this matter.

Sincerely yours,

Michael J. Ahern

Enclosures
cc: Service List

**STATE OF MINNESOTA**
**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

| | |
|---|---|
| LeRoy Koppendrayer | Chair |
| David Boyd | Commissioner |
| Marshall Johnson | Commissioner |
| Thomas Pugh | Commissioner |
| Phyllis Reha | Commissioner |

In the Matter of the Petition of Minnesota Energy Resources Corporation For Approval of an Affiliated Interest Agreement Related to the Formation and Operation of Integrys Business Support, LLC

Docket No. G007,011/AI-07-779

**MINNESOTA ENERGY RESOURCES CORPORATION'S REPLY COMMENTS**

Minnesota Energy Resources Corporation ("MERC" or "Company") submits this reply to the Department of Commerce's ("Department") September 7, 2007 Comments in Docket No. G007,011/AI-07-779. A discussion of the Department's recommendations follows.

- **The Department recommended that the Commission approve the Master AIA on the condition that MERC maintain records that support the Gas Group's decisions on the prices involved in the gas purchasing transactions.**

Response

MERC agrees to maintain records that support the Gas Group's decisions on the prices involved in the gas purchasing transactions.

- **The Department recommended that the Commission require MERC to petition for approval from the Commission prior to an extension of Gas Group's centralized gas procurement service to any non-regulated affiliates.**

Response

In the event that Integrys Business Support should intend to provide gas procurement services to any non-regulated affiliates, MERC will pre-file and seek Commission approval of such agreements.

- **The Department recommended that the Commission put MERC on notice that it should be prepared to demonstrate in the Company's next general rate case that the General/Corporate Allocation method provides similar results compared to the Commission's preferred general allocation method, or that the Company's method better serves the public interest and that the Commission make no finding on the reasonableness of the cost allocation methodologies set forth in the Master AIA at this time**

Response

MERC believes that it will be able to demonstrate in its next rate case that the allocation method provides similar results compared to the Commission's preferred method, or that the method in the Master AIA better serves the public interest.

Additionally, MERC would like to note that this agreement is undergoing regulatory review and approval in Wisconsin, Michigan, and Illinois, in addition to Minnesota, and that there may be minor changes to the agreement arising out of those state processes. MERC will provide any such changes to the Commission prior to its final approval of the agreement.

MERC appreciates the opportunity to provide reply comments in this docket, and appreciates the Department's review and thorough analysis of the issues connected with the formation of Integrys Business Support.

DATED: September 17, 2007

Respectfully Submitted,

DORSEY & WHITNEY LLP

By______________________
Michael J. Ahern
Ann M. Seha
Suite 1500, 50 South Sixth Street
Minneapolis, MN 55402-1498
Telephone: (612) 340-2600

Attorneys for Minnesota Energy Resources Corporation

**AFFIDAVIT OF SERVICE**

STATE OF MINNESOTA )
) ss.
COUNTY OF HENNEPIN )

Sarah J. Kerbeshian, being first duly sworn on oath, deposes and states that on the 17th day of September 2007, the Reply Comments of Minnesota Energy Resources Corporation in Docket Number G007,G011/AI-07-779 were electronically filed with the Minnesota Public Utilities Commission and the Minnesota Department of Commerce. A copy of the Reply Comments was provided via United States first class mail to the remaining individuals on the attached service list.

Sarah J. Kerbeshian

Subscribed and sworn to before me
this 17th day of September, 2007.

Paula R Bjorkman

Notary Public, State of Minnesota

PAULA R. BJORKMAN
NOTARY PUBLIC-MINNESOTA
My Commission Expires Jan. 31, 2010

**Service List**

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