

June 3, 2013

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

RE: Response Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. G007,011/AI-10-783

Dear Dr. Haar:

On July 12, 2010, Minnesota Energy Resources Corporation (MERC or the Company), a subsidiary of Integrys Energy Group, Inc. (Integrys), filed a petition with the Minnesota Public Utilities Commission (Commission) in the following matter:

Petition of Minnesota Energy Resources Corporation for Approval of an Affiliated Interest Agreement (Agreement).

The proposed Agreement is between Integrys and all of the wholly owned regulated subsidiaries of Integrys (including MERC), one partially owned regulated subsidiary of Integrys and all wholly owned non-regulated subsidiaries of Integrys. If approved, the Agreement would complement an affiliated interest agreement between the Integrys Business Support (IBS) subsidiary and other Integrys subsidiaries approved in Docket No. G007,011/AI-07-779.

The Minnesota Department of Commerce, Division of Energy Resources (Department) is filing these Response Comments in response to MERC filing a 2012 Market Study on May 13, 2013.

The Department recognizes that MERC has followed through on its commitment to file, in the second quarter of 2013, transaction detail, cost studies and market studies, as appropriate, supporting non-IBS, non-regulated transactions for calendar year 2012. The market study provides more current information upon which to base an assessment of whether the costs imposed under the existing agreement were reasonable. However, the Department emphasizes that the market study does not eliminate the need for the Company to file the non-IBS cost study that is part of the Agreement.

As the Department stated in its November 7, 2012 comments in this docket, the purpose of the non-IBS cost study is to prevent MERC's ratepayers from subsidizing unregulated enterprises of MERC or other unregulated affiliates of Integrys covered by the Agreement. The Company's

proposal appropriately would use the higher of cost or market value when the regulated utility provides service to a non-regulated affiliate and the lower of cost or market value when the regulated utility receives service from a non-regulated affiliate. Therefore, the results of both a cost study and a fair-market-value study are necessary if the Agreement is to function as intended. If either study is not available, ratepayers may not receive all of the intended benefits of the proposed Agreement.

When MERC next files a general rate case all of the Company's cost allocations will be subject to review by the Commission. In a rate case, MERC has the burden of proving that it has followed cost allocation rules so as to protect ratepayers. If MERC has not filed a non-IBS cost study when the Company files its next rate case, MERC risks having its proposed cost allocations found invalid and its cost-recovery requests disallowed.

The Department's intent in recommending that the Commission require MERC to file its non-IBS cost study concurrent with or prior to the Company's next rate case is to ensure that the record before the Commission is adequate to support the Commission's decision in the rate case. Proposed cost-recovery levels in MERC's next rate case must be supported by the record or, absent support, must be decided in favor of ratepayers. Without a cost study in the record of MERC's next rate case, cost recovery under the Agreement would not be supported by the record.

The Department's position is unchanged from its December 24, 2012 comments in this docket when it pointed out that MERC has choices as to whether to obtain Commission approval of a cost study. As the Department stated on page 5 of the December 24, 2012 comments:

The Department acknowledges that MERC may choose to: 1) file the non-IBS cost study prior to its next rate case, 2) file the non-IBS study concurrent with the Company's next rate case, or 3) bear the risk that the record in MERC's next rate case is not adequate to support its case pertaining to non-IBS costs and revenues.

Thus, whatever MERC's decision is regarding whether and when to seek Commission approval of the non-IBS cost study, the burden of proof at the time of a rate case will be on MERC to show the reasonableness of any proposal to recover costs of transactions conducted under this affiliated-interest agreement.

The Department continues to recommend that the Commission approve the proposed Agreement as approved by the Illinois Commerce Commission and the Public Service Commission of Wisconsin, including the Addendum, provided that the Commission requires MERC to:

- file its non-IBS cost study concurrent with or prior to MERC's next rate case; in any event, MERC bears the burden of showing in its next rate case that its proposed recovery of costs and revenues pertaining to non-IBS transactions is reasonable. Further, MERC must file its non-IBS cost study no later than May 1, 2015;
- file with the Commission billing reports showing its charges, as a Providing Party, to any Receiving Party to which it provided Services under the Agreement during the

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- preceding calendar year and billing reports showing its payments, as a Receiving Party, for Services received from Providing Parties under the Agreement during the preceding calendar year by May 1 of each year;
- file the annual internal audit report in this docket with the Commission no later than July 1 of each audit year;
 - file the annual updates to the cost study in this docket with the Commission by May 1 of each applicable year;
 - file subsequent cost studies in this docket with the Commission by May 1 of each applicable year; and
 - file a study with the Commission three years from the effective date of the Agreement providing information sufficient to enable the Commission to determine whether the Agreement should continue, be modified, or be discontinued.

The Department concludes that no additional filings are necessary in this docket. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ MARLON GRIFFING
Financial Analyst
651-297-3900

MG/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. G007,011/AI-10-783

Dated this 3rd day of **June, 2013**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_10-783_AI-10-783
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Michael	Bradley	bradley@moss-barnett.com	Moss & Barnett	4800 Wells Fargo Ctr 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	OFF_SL_10-783_AI-10-783
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Richard	Haubensak	RICHARD.HAUBENSAK@CONSTELLATION.COM	Constellation New Energy Gas	Suite 200 12120 Port Grace Boulevard La Vista, NE 68128	Electronic Service	No	OFF_SL_10-783_AI-10-783
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_10-783_AI-10-783
Brian	Meloy	brian.meloy@leonard.com	Leonard, Street & Deinard	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-783_AI-10-783
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-783_AI-10-783
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-783_AI-10-783

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_10-783_AI-10-783
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW Rochester, MN 55901	Electronic Service	No	OFF_SL_10-783_AI-10-783