Direct Testimony and Schedules
Lisa J. Gast

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. G007,011/GR-10-977

Exhibit _____

Capital Structure and Cost of Capital

November 30, 2010

TABLE OF CONTESTS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lisa J. Gast. My business address is Integrys Energy Group, Inc. ("Integrys"), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001.

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

A. I am the Manager, Financial Planning and Analysis for Integrys Business Support, LLC ("IBS"). Both Minnesota Energy Resources Corporation ("MERC") and IBS are wholly owned subsidiaries of Integrys.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I graduated from the University of Wisconsin – Green Bay in 1984 with a Bachelor's Degree in Accounting. I received a Masters Degree in Business Administration from the University of Wisconsin - Oshkosh in 1995. My professional designations are Certified Public Accountant and Certified Treasury Professional. I joined the Treasury Department at Wisconsin Public Service Corporation ("WPSC") in April of 2001. In my current position I am responsible for the capital structure forecasts for each of our regulated utilities.

Q. FOR WHOM ARE YOU PROVIDING TESTIMONY?

A. I am providing testimony on behalf of MERC.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my Direct Testimony is to:

1. Present MERC's capital structure and cost of capital for the 2009 historical year,

2. Present MERC's capital structure and cost of capital for the 2010 projected year;

3. Present MERC's capital structure and cost of capital for the 2011 proposed test year,

4. Explain the differences in adjusted common equity between the 2009 historical year and the 2011 proposed test year,

5. Describe the required Common Equity Ratio for the 2011 proposed test year, MERC's proposed cost of debt capital and MERC's weighted average cost of capital, and

6. Describe the required Return on Common Equity ("ROE") for the 2011 proposed test year.

Q. DOES MERC PRESENT ANY OTHER EVIDENCE ON COST OF CAPITAL?

A. Yes, it does. Mr. Paul R. Moul of P. Moul & Associates provides evidence on MERC's cost of capital. He presents analytical studies employing various industry models to derive his recommendation for the return on common equity that MERC is requesting in this case.

Q. IS MERC PUBLICLY OWNED?

A. Yes, it is. Integrys holds 100% of the common stock of MERC. Integrys is traded on the New York Stock Exchange under the symbol "TEG".

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS TO THE COMMISSION.

A. For the 2011 proposed test year, MERC requests that the Commission approve an overall cost of capital of 8.6692%. This cost of capital is based on a common equity ratio of 50.20% for the test year, and an 11.25% cost of common equity as supported in my testimony and in the testimony of Mr. Paul R. Moul. My recommendation is summarized in Exhibit _____ (LJG-1), page 1 of 4. The recommended capital structure and return on equity will ensure that MERC has access to capital at reasonable rates when MERC needs it, thereby benefiting its customers.

II. DESCRIPTION OF EXHIBITS

Q. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?

A. I am sponsoring Exhibit _____ (LJG-1) and Exhibit _____ (LJG-2).

Q. WERE THE EXHIBITS PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. PLEASE EXPLAIN PAGES 1 THROUGH 4 OF EXHIBIT _____ (LJG-1).

A. In general, Pages 1 through 4 of Exhibit _____ (LJG-1) support and calculate MERC's capital structure, cost of capital, and required rate of return for the 2009 historical year, 2010 projected year, and 2011 proposed test year.

Page 1 develops MERC's overall rates of return of 8.1329% and 8.0361% for 2009 and 2010 respectively, based on MERC's 13-month average capital structure, and a 10.21% ROE. This schedule also develops MERC's overall rate of return of 8.6692% for the 2011 proposed test year based on an 11.25% ROE.

Page 2 develops MERC's embedded cost of long-term debt of 6.3086% and 6.3519% for 2009 and 2010, respectively, based on a 13-month average. This schedule also develops MERC's 2011 proposed test year embedded cost of long-term debt of 6.5526% based on a 13 month average.

Page 3 develops MERC's weighted average cost of short-term debt of 3.0164% and 0.4237% for 2009 and 2010, respectively, based on a 13-month average. This schedule also develops MERC's 2011 proposed test year weighted average cost of short term debt of 1.8252%, based on a 13-month average.

Page 4 develops MERC's 13-month average balance of Adjusted Common Equity for the 2009 historical year, 2010 projected year, and 2011 proposed test year.

Q. HOW WERE THE RATES FOR THE INTERCOMPANY LONG TERM DEBT FROM INTEGRYS ESTABLISHED?

A. The long-term agreements were established on July 1, 2006 – the date of MERC's acquisition of Aquila's Minnesota natural gas operations.[1] July 1 was a Saturday, therefore, the rates used for the agreements were the June 30, 2006 benchmark Treasury rates, plus a reoffer spread and an issue fee spread applicable to Integrys' credit strength. These spreads were determined by polling 3 investment banking firms and averaging the results. See the table below for a summary of the rates by maturity.

	7 Year - 2013	10 Year - 2016	15 Year – 2021
Benchmark Treasury Rate	5.11%	5.14%	5.14%
Average Reoffer Spread	0.81%	0.93%	1.18%
Average Issue Fee Spread	0.11%	0.09%	0.08%
All-In Fixed Rate (360 day) Stated Rate in Agreements	6.03%	6.16%	6.40%
/ 360 x 365 Effective Rate (rounded)	6.11%	6.25%	6.49%

Q. HOW WERE THE RATES FOR THE INTERCOMPANY SHORT-TERM DEBT FROM INTEGRYS FORECASTED?

A. Under the affiliated interest agreement approved by the Commission, Integrys provides short-term debt to MERC at its cost of external commercial paper.[1] Integrys' commercial paper rating is A-2 from Standard & Poor's and P-2 from Moody's. Forecasted monthly short-term debt rates are based on 1-month commercial paper rates from Moody's DataBuffet.com as of June 7, 2010. These forecasted rates result in a weighted average short-term debt rate of 1.8252% for the 2011 proposed test year.

[1] The Commission approved MERC's affiliated interest agreement for short-term borrowing from Integrys in its Order Approving Affiliated Interest Borrowing Agreement, *ITMO the Annual Capital Structure Filing of Minnesota Energy Resources Corporation and Request for Approval of Affiliated Interest Agreement*, Docket No. G-007,011/AI-09-1108 (April 20, 2010).

Q. PLEASE EXPLAIN EXHIBIT _____ (LJG-2).

A. Exhibit _____ (LJG-2) presents the 2009 actual, 2010 projected and 2011 proposed capital structure and cost of capital for Integrys on a consolidated basis.

III. MERC'S ADJUSTED COMMON EQUITY FROM 2009 TO 2011

Q. PLEASE EXPLAIN WHY MERC'S YEAR END ADJUSTED COMMON EQUITY INCREASED FROM $91,160,513 FOR THE 2009 HISTORICAL YEAR TO $110,834,913 FOR THE 2011 PROPOSED TEST YEAR.

A. The change in MERC's year end adjusted common equity is due to retained earnings, equity returns to Integrys, and reduced utility equity adjustments. MERC has projected earnings of $18,853,978 (inclusive of a 2011 rate increase), net equity returns of $8,000,000, and a reduction of utility equity adjustments of $8,820,423 from December 31, 2009 through December 31, 2011.

A summary of the above described changes to MERC's adjusted common equity is shown below:

Summary of Changes to MERC's Adjusted Common Equity	
Actual 12/31/09	**$91,160,513**
Earnings	$18,853,978
Net Equity Returns	($8,000,000)
Reduced Utility Equity Adjustments *	$8,820,422
Forecast 12/31/11	**$110,834,913**

* Reductions to utility equity adjustments result in an increase in adjusted common equity. For 2010 - 2011, $7,500,989 of adjusted equity is created by deferred tax cash flows related to goodwill, and $1,319,433 is created by amortization of customer lists for ServiceChoice.

IV. THE REQUIRED COMMON EQUITY RATIO

Q. WHAT COMMON EQUITY RATIO IS REQUIRED FOR MERC?

A. A common equity ratio of 50% – 55 % (after considering adjustments related to non-utility investments) is required to provide MERC the financial health and flexibility it needs to respond to the changes and challenges of the utility industry.

MERC is currently targeting a common equity ratio of 50.20% for the 2011 proposed test year. During the 2009 historical test year, MERC maintained a 49.82% average common equity ratio, ending the year at 50.16%. MERC's Board of Directors has approved a monthly common equity range of 40% - 65%, with an average equity target of 50% - 55%.

Business risk is greater today than in earlier decades and this increased business risk is reflected in the more stringent benchmarks now being used by the various credit rating agencies. *See* Section II of Paul Moul's testimony for a discussion of the current factors affecting business risk for natural gas utilities. Business risk can be offset somewhat with decreased financial risk by maintaining a lower debt ratio (and a higher common equity ratio) which in-turn increases interest coverage. Interest coverage is an indication of the amount of cash flow required to make interest payments. A lower debt ratio, leads to lower interest payments, and higher interest coverage – indicating decreased financial risk.

Q. WHAT BENEFITS DOES A CAPITAL STRUCTURE WITH AN ADEQUATE COMMON EQUITY RATIO PROVIDE?

A. An adequate common equity ratio provides MERC with the ability to resist negative financial pressures, and creates a buffer to protect against unexpected adverse developments, so that distortions can be quickly remedied without impairing either the orderly conduct of the business or the credit quality of present or future securities issuances. As market volatility occurs, as it has in the recent past, those companies with higher financial risk are subject to higher interest rate volatility than those companies with lower financial risk. Maintaining an adjusted common equity ratio in the 50% - 55% range will help ensure that MERC's financial risk is at a level that will enable it to access capital at reasonable rates when MERC needs it, thereby benefiting its customers.

V. THE REQUIRED RETURN ON EQUITY

Q. WHAT IS MERC'S RECOMMENDATION FOR THE ROE FOR THE 2011 PROPOSED TEST YEAR?

A. MERC is requesting an 11.25% ROE for the 2011 proposed test year as described in the direct testimony of Paul R. Moul.

Q. IS THE MARKET RESPONSIVE TO ALTERNATIVE INVESTMENT OPPORTUNITIES?

A. Yes, it is. Investors have a full field of investment choices. Investors can choose the stock market or other markets such as bonds, treasury securities, money funds, real estate, etc. If investors choose the stock market, they may elect a utility stock or a stock from one of the many other industries available. If investors prefer utilities, they have many to select from within the utility industry. Therefore, it is imperative to provide a competitive return to the shareholder. The return on a utility's stock must be competitive given its risk profile as compared to other investment alternatives.

An adequate ROE is of major importance and benefit to customers. Adequate returns on MERC's common equity would help to ensure continued reliable utility services, and would assure these services are provided at the lowest overall rates through the lowest overall cost of capital. This can only be maintained with an adequate ROE.

Q. WHAT EFFECT WOULD AN ADEQUATE ROE HAVE ON THE OTHER SECURITIES OF MERC?

A. An adequate ROE would permit MERC to raise capital when needed, at reasonable rates, especially during periods of "tight" credit markets. An adequate ROE is a positive way of ensuring MERC's ability to continue to provide safe, reliable and cost effective energy services to its customers.

Q. IN SUMMARY, WHAT IS YOUR RECOMMENDATION REGARDING THE REQUIRED COMMON EQUITY RATIO AND THE REQUIRED ROE FOR THE 2011 PROPOSED TEST YEAR?

A. MERC recommends that the average common equity ratio be set at 50.20% with a ROE of 11.25%. These values are recommended because:

1. They are necessary to provide a fair return to investors commensurate with competitive investment vehicles available,
2. There is a notable increase in business risk associated with the increased uncertainty in the utility industry, and
3. They recognize that MERC has delivered, and will continue to deliver, reliable service at a reasonable cost to its customers. Therefore, the shareholder should be properly compensated for delivering on its commitment to those customers.

VI. CONCLUSION

Q. IN YOUR OPINION, DOES THE CAPITAL STRUCTURE AND COST OF CAPITAL PROVIDE A REASONABLE BASIS FOR ESTABLISHING RATES IN THIS CASE?

A. Yes. The capital structure and cost of capital is reasonable and supports the revenue increase MERC has requested in this case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY ON CAPITAL STRUCTURE AND COST OF CAPITAL AT THIS TIME?

A. Yes, it does.

2009 Historic Capital Structure

Line No.	Description	Amount	Percent Capital	Cost Rate %	Weighted Cost Capital	Weighted Cost Debt
1						
2	Long-Term Debt	$ 87,000,000	46.56%	6.3086%	2.9373%	5.8531%
3						
4	Short-Term Debt	$ 6,769,167	3.62%	3.0164%	0.1093%	0.2178%
5						
6	Adjusted Common Equity	$ 93,083,881	49.82%	10.2100%	5.0863%	
7						
8	Total Capital	$ 186,853,047	100.00%		8.1329%	6.0709%

2010 Projected Capital Structure

Line No.	Description	Amount	Percent Capital	Cost Rate %	Weighted Cost Capital	Weighted Cost Debt
9						
10	Long-Term Debt	$ 87,000,000	46.10%	6.3519%	2.9281%	5.8401%
11						
12	Short-Term Debt	$ 7,624,540	4.04%	0.4237%	0.0171%	0.0341%
13						
14	Adjusted Common Equity	$ 94,103,579	49.86%	10.2100%	5.0909%	
15						
16	Total Capital	$ 188,728,120	100.00%		8.0361%	5.8742%

2011 Proposed Capital Structure

Line No.	Description	Amount	Percent Capital	Cost Rate %	Weighted Cost Capital	Weighted Cost Debt
17						
18	Long-Term Debt	$ 87,000,000	44.68%	6.5526%	2.9279%	5.8798%
19						
20	Short-Term Debt	$ 9,956,355	5.11%	1.8252%	0.0933%	0.1874%
21						
22	Adjusted Common Equity	$ 97,751,452	50.20%	11.2500%	5.6480%	
23						
24	Total Capital	$ 194,707,807	100.00%		8.6692%	6.0672%

Long Term Debt

Line No.	Description	Reference	Historic 2009		Additional Borrowings	Projected 2010	Additional Borrowings	Proposed 2011
1								
2	December	General Ledger	87,000,000			87,000,000		87,000,000
3	January	General Ledger	87,000,000			87,000,000		87,000,000
4	February	General Ledger	87,000,000			87,000,000		87,000,000
5	March	General Ledger	87,000,000			87,000,000		87,000,000
6	April	General Ledger	87,000,000			87,000,000		87,000,000
7	May	General Ledger	87,000,000			87,000,000		87,000,000
8	June	General Ledger	87,000,000			87,000,000		87,000,000
9	July	General Ledger	87,000,000			87,000,000		87,000,000
10	August	General Ledger	87,000,000			87,000,000		87,000,000
11	September	General Ledger	87,000,000			87,000,000		87,000,000
12	October	General Ledger	87,000,000			87,000,000		87,000,000
13	November	General Ledger	87,000,000			87,000,000		87,000,000
14	December	General Ledger	87,000,000			87,000,000		87,000,000
15								
16	Average	13 Month Average of Lines 2 - 14	87,000,000			87,000,000		87,000,000
17								
18	Annual Interest Expense		5,465,976			5,465,976		5,465,976
19	Other Interest		22,463	(1)		-		-
20	Amortization of Credit Facility Fees		-	(2)		60,194		234,820
21	Total Interest Expense	General Ledger	5,488,439			5,526,170		5,700,796
22								
23	Interest Rate on Interest Expense	Line 18 / Line 16	6.2827%			6.2827%		6.2827%
24	Interest Rate on Other Interest	Line 20 / Line 16	0.0258%			0.0000%		0.0000%
25	Interest Rate on Amortization	Line 19 / Line 16	0.0000%			0.0692%		0.2699%
26	Total Interest Rate on Long Term Debt	Sum of Lines 23 - 25	6.3086%			6.3519%		6.5526%

(1) Interest to true-up interest expense from 2006. Interest expense was recorded in equal amounts from July 2006 through December 2006. The methodology for charging interest expense to the individual months of the year was changed resulting in underrecording interest expense in the second half of 2006.

(2) Amortization of upfront credit facility fees was recorded with short-term debt in 2009. For 2010 forward, the amortization will be recorded with long-term debt.

Short Term Debt

Line No.	Description	Reference	Historic 2009	Additional Borrowings	Projected 2010	Additional Borrowings	Proposed 2011
1							
2	December	General Ledger	22,300,000	(3,382,667)	18,917,333	(2,561,665)	16,355,668
3	January	General Ledger	21,930,000	(16,058,304)	5,871,696	10,282,418	16,154,114
4	February	General Ledger	30,500,000	(19,862,128)	10,637,872	880,546	11,518,418
5	March	General Ledger	9,100,000	(120,278)	8,979,722	(3,242,128)	5,737,594
6	April	General Ledger	1,100,000	6,860,461	7,960,461	(5,854,373)	2,106,088
7	May	General Ledger	-	-	-	-	-
8	June	General Ledger	-	-	-	-	-
9	July	General Ledger	-	-	-	2,038,692	2,038,692
10	August	General Ledger	-	-	-	6,571,407	6,571,407
11	September	General Ledger	-	4,655,039	4,655,039	7,971,884	12,626,923
12	October	General Ledger	-	18,981,873	18,981,873	(1,266,223)	17,715,650
13	November	General Ledger	5,655,000	11,116,320	16,771,320	8,503,687	25,275,007
14	December	General Ledger	3,590,000	12,765,668	16,355,668	6,753,393	23,109,061
15							
16	Average	13 Month Average of Lines 2 - 14	6,769,167	855,374	7,624,540	2,331,815	9,956,355
17							
18	Annual Interest Expense		91,511		32,303		181,720
19	Amortization of Credit Faciltiy Fees		112,675 (1)		-		-
20	Total Interest Expense	General Ledger	204,186		32,303		181,720
21							
22	Interest Rate	Line 18 / Line 16	1.3519%		0.4237%		1.8252%
23	Interest Rate on Amortization	Line 19 / Line 16	1.6645%		0.0000%		0.0000%
24	Total Interest Rate on Short Term Debt	Sum of Lines 22 - 23	3.0164%		0.4237%		1.8252%

(1) Amortization of upfront credit facility fees was recorded with short-term debt in 2009.
For 2010 forward, the amortization will be recorded with long-term debt.

Common Equity

Line No.	Description	Reference	Historic 2009	Equity Infusion	Retained Earnings	Projected 2010	Equity Infusion	Retained Earnings	Proposed 2011
1									
2	**Common Stock**								
3	December	General Ledger	252,174,114	(38,000,000)	1,839,154	216,013,268	2,500,000	5,159,122	223,672,390
4	January	General Ledger	256,892,803	(38,000,000)	2,643,103	221,535,906	(2,500,000)	4,145,182	223,181,088
5	February	General Ledger	236,760,902	(21,000,000)	2,224,891	217,985,793	(2,500,000)	4,155,890	219,641,683
6	March	General Ledger	218,742,593	(11,000,000)	8,411,553	216,154,146	(12,500,000)	8,212,753	211,866,900
7	April	General Ledger	215,555,021	(7,000,000)	6,936,387	215,491,408	(15,500,000)	9,874,432	209,865,840
8	May	General Ledger	215,325,320	(7,000,000)	5,711,478	214,036,798	(15,500,000)	11,041,934	209,578,733
9	June	General Ledger	214,838,554	(7,000,000)	5,023,352	212,861,906	(15,500,000)	11,083,167	208,445,073
10	July	General Ledger	213,784,160	(7,000,000)	4,935,750	211,719,910	(15,500,000)	11,185,450	207,405,360
11	August	General Ledger	212,964,560	(5,000,000)	4,648,839	212,613,399	(14,500,000)	11,196,555	209,309,953
12	September	General Ledger	211,651,032	(2,500,000)	5,162,947	214,313,979	(12,000,000)	11,294,974	213,608,953
13	October	General Ledger	211,593,884	(2,500,000)	5,459,343	214,553,227	(5,500,000)	11,609,957	220,663,183
14	November	General Ledger	213,604,374	2,500,000	5,025,953	221,130,327	(10,500,000)	12,038,146	222,668,473
15	December	General Ledger	215,021,724	2,500,000	6,150,666	223,672,390	(10,500,000)	12,703,312	225,875,702
16									
17	Average	13 Month Average of Lines 3 - 15	221,275,927	(10,270,833)	5,014,876	216,019,969	(10,500,000)	9,564,138	215,084,107
18	**Goodwill &**			**Goodwill &**	**Associated**		**Goodwill &**	**Associated**	
19	**Customer List**			**Customer List**	**Deferred Taxes**		**Customer List**	**Deferred Taxes**	
20	December	General Ledger	138,232,460	(17,164,111)	3,139,908	124,208,257	(833,328)	(3,750,407)	119,624,523
21	January	General Ledger	137,850,030	(17,164,110)	3,140,359	123,826,279	(833,328)	(3,750,407)	119,242,545
22	February	General Ledger	137,468,488	(17,164,110)	3,139,923	123,444,301	(833,328)	(3,750,407)	118,860,567
23	March	General Ledger	127,298,954	(486,109)	(3,750,521)	123,062,323	(833,328)	(3,750,407)	118,478,589
24	April	General Ledger	126,916,968	(486,109)	(3,750,514)	122,680,345	(833,328)	(3,750,407)	118,096,611
25	May	General Ledger	126,534,982	(486,108)	(3,750,506)	122,298,367	(833,328)	(3,750,407)	117,714,633
26	June	General Ledger	126,152,997	(486,108)	(3,750,499)	121,916,390	(833,328)	(3,750,407)	117,332,655
27	July	General Ledger	125,771,011	(486,108)	(3,750,491)	121,534,412	(833,328)	(3,750,407)	116,950,677
28	August	General Ledger	125,389,025	(486,107)	(3,750,484)	121,152,434	(833,328)	(3,750,407)	116,568,699
29	September	General Ledger	125,007,039	(486,107)	(3,750,477)	120,770,456	(833,328)	(3,750,407)	116,186,721
30	October	General Ledger	124,625,054	(486,106)	(3,750,469)	120,388,479	(833,328)	(3,750,407)	115,804,744
31	November	General Ledger	124,243,171	(486,106)	(3,750,565)	120,006,500	(833,328)	(3,750,407)	115,422,765
32	December	General Ledger	123,861,211	(486,105)	(3,750,583)	119,624,523	(833,328)	(3,750,407)	115,040,788
33									
34	Average	13 Month Average of Lines 20 - 32	128,192,046	(3,960,691)	(2,314,965)	121,916,390	(833,328)	(3,750,407)	117,332,655
35	**Adjusted**								
36	**Common Equity**								
37	December	General Ledger	113,941,654	(55,164,111)	4,979,062	91,805,011	1,666,672	1,408,715	104,047,867
38	January	General Ledger	119,042,773	(55,164,110)	5,783,462	97,709,627	(3,333,328)	394,775	103,938,543
39	February	General Ledger	99,292,414	(38,164,110)	5,364,814	94,541,492	(3,333,328)	405,483	100,781,117
40	March	General Ledger	91,443,639	(11,486,109)	4,661,032	93,091,823	(13,333,328)	4,462,347	93,388,311
41	April	General Ledger	88,638,053	(7,486,109)	3,185,873	92,811,063	(16,333,328)	6,124,026	91,769,229
42	May	General Ledger	88,790,338	(7,486,108)	1,960,972	91,738,431	(16,333,328)	7,291,528	91,864,100
43	June	General Ledger	88,685,557	(7,486,108)	1,272,853	90,945,516	(16,333,328)	7,332,761	91,112,418
44	July	General Ledger	88,013,149	(7,486,108)	1,185,259	90,185,498	(16,333,328)	7,435,043	90,454,682
45	August	General Ledger	87,575,535	(5,486,107)	898,355	91,460,965	(15,333,328)	7,446,148	92,741,254
46	September	General Ledger	86,643,993	(2,986,107)	1,412,470	93,543,523	(12,833,328)	7,544,567	97,422,232
47	October	General Ledger	86,968,830	(2,986,106)	1,708,874	94,164,748	(6,333,328)	7,859,550	104,858,439
48	November	General Ledger	89,361,203	2,013,894	1,275,388	101,123,827	(11,333,328)	8,287,740	107,245,708
49	December	General Ledger	91,160,513	2,013,895	2,400,083	104,047,867	(11,333,328)	8,952,905	110,834,913
50									
51	Average	13 Month Average of Lines 37 - 49	93,083,881	(14,231,525)	2,699,910	94,103,579	(11,333,328)	5,813,731	97,751,452
52									
53	**Return on Equity**		10.2100%			10.2100%			11.2500%

Integrys Energy Group, Inc.
Consolidated
RATE OF RETURN COST OF CAPITAL SCHEDULES
SUMMARY SCHEDULES
($000'S)

Line	Capitalization	Amount (a)	Percent of Total Capitalization (b)	Cost of Capital (c)	Weighted Cost of Capital (d)
	HISTORICAL YEAR ENDED 12/31/09				
1	Long Term Debt	$ 2,526,157	43.4%	5.56%	2.40%
2	Short Term Debt	369,055	6.3%	6.58%	0.40%
3	Long Term & Short Term Debt	$ 2,895,212	49.7%	5.69%	2.80%
4	Preferred Stock	51,090	0.9%	6.10%	0.10%
5	Common Equity	2,880,778	49.4%	10.21%	5.00%
6	Total Capitalization	$ 5,827,080	100.0%		7.90%
	PROJECTED YEAR ENDED 12/31/10				
7	Long Term Debt	$ 2,457,396	43.9%	5.71%	2.50%
8	Short Term Debt	96,611	1.7%	12.65%	0.20%
9	Long Term & Short Term Debt	$ 2,554,007	45.6%	5.97%	2.70%
10	Preferred Stock	51,090	0.9%	6.10%	0.10%
11	Common Equity	2,999,023	53.5%	10.21%	5.50%
12	Total Capitalization	$ 5,604,120	100.0%		8.30%
	PROPOSED YEAR ENDED 12/31/11				
13	Long Term Debt	$ 2,224,250	40.6%	5.94%	2.40%
14	Short Term Debt	135,694	2.5%	11.79%	0.30%
15	Long Term & Short Term Debt	$ 2,359,944	43.1%	6.28%	2.70%
16	Preferred Stock	51,090	0.9%	6.10%	0.10%
17	Common Equity	3,063,439	56.0%	11.25%	6.30%
18	Total Capitalization	$ 5,474,473	100.0%		9.10%

NOTES:
All balances are 13 month averages.
Short Term Debt interest expense includes "Other and AFUDC".
Cost of Common Equity uses MERC's cost of equity.