

Direct Testimony and Schedules
Tracy L. Kupsh

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 _____

Integrys Business Support Cost Allocation Methodology

November 30, 2010

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Tracy L. Kupsh. My business address is Integrys Energy Group, Inc.
4 (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay WI 54307-9001.

5
6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL, PROFESSIONAL, AND UTILITY
7 BACKGROUND.

8 A. I graduated from Lakeland College of Sheboygan, Wisconsin in 1996 with a Bachelor of
9 Arts degree in Accounting. After spending 19 years working for Unilever, a world wide
10 consumer goods company, in various cost accounting positions, I obtained my current
11 position with Integrys Business Support (“IBS”) on December 1, 2008.

12
13 My duties and experience as Manager - Operations Accounting for IBS include the
14 review and approval of monthly financial statements of IBS and the associated cross
15 charges to the various regulated affiliates, including Minnesota Energy Resources
16 Corporation (“MERC”), the coordination and/or participation in the preparation of the
17 affiliates’ Operations & Maintenance (“O&M”) and Capital budgets, and the analysis of
18 variances between forecasted and actual financial results of IBS.

19
20 Q. ON WHOSE BEHALF ARE YOU OFFERING THIS TESTIMONY?

21 A. I am offering this testimony on behalf of MERC.
22

1 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

2 A. The purpose of this testimony, is to:

- 3 1. Provide an overview of the basic philosophy and goals of IBS's business
4 operations,
- 5
- 6 2. Describe the corporate structure of IBS and the services IBS provides to its
7 affiliates, and
- 8
- 9 3. Describe the various cost allocation methodologies and formulas that determine
10 the costs paid by Integrys affiliates for the services provided by IBS.
11

12 Q. HAS MINNESOTA RECOGNIZED THE COST ALLOCATION METHODOLOGIES
13 ESTABLISHED IN THE REGULATED AIA?

14 A. Yes, the Regulated AIA, including the cost allocation methodologies and formulas
15 established therein, was originally approved by the Minnesota Commission in Docket
16 No. G-007,011/AI-07-779, on March 5, 2008. Subsequent changes to Exhibits B and C
17 of the Regulated AIA were approved in Docket No. G007, 011/AI-08-1376 on May 26,
18 2009, and in Docket No. G-007,011/AI-09-1244 on January 26, 2010. My testimony
19 supports the reasonableness of the cost allocation factors used in setting rates in this rate
20 case.
21

22 Q. HAVE OTHER STATE COMMISSIONS RECOGNIZED THE COST ALLOCATION
23 METHODOLOGIES ESTABLISHED IN THE REGULATED AIA?

24 A. Yes, the Regulated AIA, including the cost allocation methodologies and formulas
25 established therein, have been recognized by the Public Service Commission of
26 Wisconsin, the Illinois Commerce Commission, and the Michigan Public Service

1 Commission when determining the revenue requirements for Integrys utilities operating
2 in those jurisdictions.

3

4 Q. DOES MERC SEEK TO OTHERWISE RECOVER THE COSTS ALLOCATED TO
5 THE COMPANY UNDER THE REGULATED AIA IN THIS RATE CASE?

6 A. Yes. The MERC 2011 gas revenue requirement includes actual amounts charged in
7 2009, inflated to 2011, and adjusted for known and measurable changes for the services
8 that IBS provides to MERC as described in the direct testimony of Mr. Seth DeMerritt.
9 These amounts include costs that are directly assigned to MERC, costs that are assigned
10 to MERC using cost-causal allocators, and costs that are assigned to MERC using the
11 general/corporate allocator.

12

1 **II. BASIC PHILOSOPHY OF IBS**

2 Q. PLEASE DESCRIBE THE PHILOSOPHY AND GOALS UNDERLYING THE
3 OPERATION OF IBS.

4 A. IBS strives to be a leading service company provider of innovative and cost-effective
5 support services and solutions to its affiliates. The company focuses on the following
6 four areas:

7 Customer Focus: Maintaining and demonstrating an in-depth understanding of
8 Integrys' businesses, developing and delivering innovative, high-value services
9 that address business issues and assisting the businesses in achieving their goals;
10

11 Service Delivery: Delivering high-quality and cost-effective services in a timely
12 manner; proactively developing, in partnership with its internal customers, new
13 and innovative services and solutions that address business needs, leveraging
14 technology and process excellence across its various service categories;
15

16 Cost Management and Value Creation: Continually seeking ways to improve
17 processes and reduce costs, opportunities to invest in people, processes and
18 technology that will result in meaningful value creation for our business partners
19 and stakeholders; and
20

21 Employee Engagement: Maintaining a high-performance culture and staff that
22 exhibit strong technical skills, an in-depth knowledge of the business, and a
23 business mindset.
24

25 Integrys operates six utilities across four states, and has a number of non-regulated
26 subsidiaries. As a centralized service company, IBS strives to achieve economies of
27 scale by leveraging employees and management across many affiliates and businesses.
28 Such leveraging reduces the holding company's system-wide costs, and allows those
29 costs to be shared among a larger number of affiliates.
30

1 **III. IBS STRUCTURE AND SERVICES PROVIDED**

2 Q. PLEASE BRIEFLY DESCRIBE THESE VARIOUS UNITS OF IBS.

3 A. Below I show the various IBS units along with examples of the Administrative & General
4 services offered by each unit:

- 5 • **Administrative** -- Facility services, security services, work space
6 management services.
- 7
- 8 • **Environmental** -- Environmental planning, permitting, licensing,
9 compliance services.
- 10
- 11 • **CFO Services** -- Accounting, treasury, tax, internal audit and related
12 financial services.
- 13
- 14 • **Human Resources** -- Payroll processing, labor relations, recruiting and
15 staffing.
- 16
- 17 • **Information Technology** -- Desktop, website, project, infrastructure and
18 telephony services.
- 19
- 20 • **Project Services** -- Project management and support, business case
21 development, competitive excellence concept development, portfolio
22 management and Dam safety program management
- 23
- 24 • **Legal Services** -- General legal services, insurance, claims and
25 compliance services.
- 26
- 27 • **Supply Chain** -- Sourcing, fleet and materials management services.
- 28
- 29 • **Gas Group** -- Gas engineering, gas supply (A&G and ministerial)
30 services, and gas customer relations services such as meter reading,
31 billing, call center operations, customer relations and market research, to
32 the gas operating utilities.
- 33
- 34 • **External Affairs** -- Government and public relations, analysis and
35 formulation of company-wide policies and objectives, rate case
36 management, preparation and dissemination of information for employees,
37 government officials, media and the public.
- 38
- 39 • **Corporate Functions** -- Executive management and oversight, corporate
40 secretary services, corporate-level human resources services, corporate-
41 level business development services.

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Q. PLEASE DESCRIBE THE REGULATED AIA, PURSUANT TO WHICH IBS PROVIDES “SHARED” OR “INTER-COMPANY” SERVICES TO THE UTILITY OPERATING COMPANIES WITHIN THE INTEGRYS HOLDING COMPANY SYSTEM.

A. Under the Regulated AIA, which is attached as Exhibit ____ (TLK-1), IBS provides a wide range of services as listed above and in Exhibit B of the Regulated AIA. Exhibit ____ (TLK-1) includes the Regulated AIA as originally approved by the Commission, and the current text of Exhibits B and C as approved by the Commission in its most recent order approving changes to the Regulated AIA. Generally, these services comprise common A&G business activities that each affiliate would need to provide internally, or procure, in order to operate its business. IBS may also provide additional services that the regulated affiliate may request and that IBS can reasonably provide in a cost-effective manner consistent with applicable law.

IBS recovers all of its costs of providing these services by direct billing the regulated affiliate whenever practicable. Where direct billing is not practicable, IBS bills affiliates pursuant to the cost allocation factors set forth in Exhibit C of the Master AIA. Services are provided at cost, including direct and indirect labor and overheads, and other cost loaders. The Allocation Factors described in Exhibit C to the Regulated AIA are designed to match the costs of the services performed with the entity or entities for which the services are performed. The basic premise underlying the allocation methodology

1 and factors we developed is to regularly zero-out the allocated IBS costs of each “home
2 center” (a departmental or operational unit of IBS).

3
4 The cost of maintaining assets, the associated depreciation expense, and a return on the
5 net assets are based on the factors identified in Exhibit _____ (TLK-2).

6
7 Q. DOES IBS PROVIDE SERVICES TO ITS NON-REGULATED AFFILIATES?

8 A. Yes, it does, pursuant to a separate, Non-Regulated AIA that is substantially similar to
9 the regulated AIA. As explained below, the Gas Group within IBS provides services
10 only to the regulated operating companies. The Gas Group’s operations, as required by
11 law, are kept separated from the non-regulated gas and electric business of Integrys
12 Energy Services (“Integrys Energy”) and its subsidiaries.

13
14 Q. ARE THE PARTIES TO THE NON-REGULATED AIA CHARGED “AT COST” FOR
15 SERVICES RENDERED AS ARE THE PARTIES TO THE REGULATED AIA?

16 A. Yes, they are. The Allocation Factors relevant to the provision of services by IBS is the
17 same under both AIAs. IBS provides all of its services “at cost,” which IBS must
18 regularly justify as part of its annual cost study or study-update work. Therefore, IBS’s
19 billings to non-regulated affiliates are based on either direct or allocated cost, just like its
20 billings to regulated affiliates. The Allocation Factors are the same under both AIAs.
21 The regulated businesses of IBS cannot subsidize its non-regulated affiliates. IBS
22 developed the Allocation Factors to ensure that all costs incurred by IBS are recovered

1 from the entity or entities who originated such costs, and in proportion to their share of
2 the whole.

3
4 Q. WHAT SERVICES DOES IBS PROVIDE TO ITS REGULATED AFFILIATES
5 UNDER THE REGULATED AIA?

6 A. These are listed and described, by category, in Exhibit B to the Regulated AIA.
7 Generally these services comprise common A&G business activities that each affiliate
8 would need to internally provide or procure to operate its business.

9
10 Q. THESE SERVICES APPEAR TO BE TYPICAL A&G FUNCTIONS, EXCEPT FOR
11 SOME THAT ARE PROVIDED BY THE GAS GROUP. WHY ARE THESE GAS
12 GROUP SERVICES PROVIDED BY IBS?

13 A. The Integrys Gas Group provides the administrative oversight of the gas engineering, gas
14 supply and certain customer relations functions to Integrys' gas utilities. These services
15 are not provided to Integrys' non-regulated subsidiaries. The Gas Group does not own
16 any gas storage assets, or gas supply or pipeline transportation contracts -- these contracts
17 and assets continue to be owned separately by the utility that contracted for those services
18 or that own the storage assets. Each operating company will continue to select and
19 maintain its own separate portfolio. IBS does, however, manage these various
20 commodity and capacity contracts. Combining these functions into a single entity
21 provides for more cost effective and consistent processes across companies.

22

1 **IV. AIA COST ALLOCATION APPROACH AND METHODOLOGY**

2 Q. WHAT IS THE UNDERLYING GOAL THAT GUIDES THE ALLOCATION OF
3 COSTS INCURRED BY A CENTRALIZED SERVICE COMPANY?

4 A. The basic premise underlying the allocation methodology and factors we developed is to
5 regularly “zero-out” each IBS “home center” (a departmental or operational unit of IBS)
6 each month. Each month, all operating costs incurred by IBS are recovered, in total,
7 from its regulated and non-regulated affiliates. This occurs by direct billing whenever
8 appropriate, and otherwise by allocating costs on a cost-causal basis to the service takers
9 within the holding company system.

10
11 The Allocation Factors described in Exhibit C to the Regulated AIA are designed to
12 match the costs of the services performed with the entity or entities for whom the services
13 are performed. The Allocation Factors only come into play for costs which are not
14 directly billed to an affiliate.

15
16 Q. PLEASE DESCRIBE THE PROCESS IBS FOLLOWS WHEN IT DIRECTLY BILLS
17 ITS COSTS TO AN AFFILIATE.

18 A. Direct billing involves a full, 100% assignment of the costs associated with a specific
19 service to the customer receiving the service. These costs include overhead charges to
20 reflect the complete cost of providing the service. An example of this would be direct
21 labor charges for an IBS engineer who is assigned to a specific project for one of the
22 affiliates. The costs associated with the engineer’s service would be directly charged and
23 billed to that affiliate for each month that the service was being provided.

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In cases where direct charging is not appropriate or practical, costs are allocated using cost/causation principles linked to the relationship of that type of service. This allocation methodology reflects operational aspects of the charge, and applies costs in a meaningful and impartial way by allocating costs to the entities receiving or benefitting from the services provided. The remaining allocations are broad based, using the General/Corporate Allocation Factor that I describe later in my testimony.

The primary focus of IBS' cost allocation methodology is to direct charge as many costs as reasonably possible.

Q. IS THIS APPROACH TO COST ALLOCATION CONSISTENT WITH THE COMMISSION'S PREFERRED APPROACH?

A. Yes. The Commission has adopted cost accounting principles that establish a preference that costs be directly assigned whenever possible. If costs cannot be directly assigned, the Commission prefers that costs be assigned through indirect measures of cost causation. Finally, if neither direct nor indirect measures of cost causation can be found, the Commission allows use of a general allocator.

Q. CAN YOU GIVE EXAMPLES OF EACH TYPE OF ALLOCATION?

A. Yes, and I will do so by describing three typical services that IBS provides.

1 The first service is provided by the Property Accounting home center. Most of the
2 activity in this home center is allocated through direct billing. However, certain
3 activities, such as processing the automated depreciation calculation each month, benefit
4 all companies. Therefore time spent on that activity is recorded in a general departmental
5 activity “bucket” that is allocated based on each company’s Property Plant & Equipment
6 (“PP&E”) balances.

7
8 Most of the costs for services provided by the Accounts Payable home center are
9 allocated through a cost-causal factor: the number of invoices processed. Although
10 invoice processors could technically track their time based on the owner of each invoice,
11 that approach would not be practical because it would require processors to incur
12 unnecessary costs to track their time. Instead, the time spent on invoice processing
13 generally is recorded in the general departmental activity “bucket” and allocated based on
14 each affiliate’s number of invoices. If an employee of Accounts Payable works on a
15 significant separate project for one or more affiliates, that time is tracked and billed
16 directly to the project, and those costs are direct billed to the appropriate affiliate. These
17 costs are then excluded from the costs allocated through the cost-causal factor.

18
19 Finally, the cost of the Investor Relations activity is allocated via the General/Corporate
20 Allocation Factor. The activities performed by this home center benefit all Integrys
21 affiliates.

1 Q. ARE ADDITIONAL COSTS LOADED INTO THE LABOR ALLOCATIONS?

2 A. Yes. With all services, the labor billed to affiliates, whether direct or allocated, includes
3 a labor loading. There are two labor-related loaders. The first is a benefits loader, and
4 includes costs for pension, personal insurance, vacation, disability, payroll taxes and
5 other similar or related costs. The second loader is designed to capture the cost of
6 providing work space for the employees performing the service. These costs include
7 lease costs or operating costs if the space is owned, depreciation expense and return on
8 the building or leasehold improvements, depreciation expense and return on furniture,
9 personal computers, common printers/copiers, etc. If another entity is sharing this space
10 with IBS, then an adjustment would take place prior to calculating a work space
11 overhead.

12
13 Q. HOW ARE LABOR COSTS AND RELATED LOADERS TRACKED?

14 A. When the affiliates are billed, labor costs are “loaded” to calculate the average cost per
15 hour actually worked by any given IBS employee. To support this process, all IBS
16 personnel report their time reflecting the actual time worked on each IBS service
17 provided.

18
19 Our ultimate goal, consistent with the Federal Energy Regulatory Commission’s
20 (“FERC”) requirements for centralized service companies, is to be as transparent as
21 possible in accurately reflecting all costs reasonably incurred by or on behalf of IBS in its
22 provisions of services to its customers. This is particularly true with respect to labor
23 costs, which comprise a significant portion of IBS’ monthly expenses.

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Q. WHAT OTHER COSTS ARE ALLOCATED TO AFFILIATES?

A. In addition to labor and contract labor costs, each home center incurs general costs related to running a department. This includes office supplies, professional licenses, administrative time and training, among other costs. These costs are allocated to the affiliates in the same proportion as the direct and cost-causal activities that are allocated to them. That is, the costs are accumulated at the higher-level functional categories, and then allocated based on the percentage of billings to each of the affiliates at each of these levels. This results in these “general costs” being charged to the affiliates in a cost-causal manner.

In addition to general use office space and equipment, other assets including systems and special use assets (e.g., print shop assets) are owned and used by IBS to provide services to its affiliates. Depreciation expense and a return on assets, along with the cost to maintain these assets, are allocated based on the factors indicated on Exhibit_____ (TLK-2).

Home centers within IBS also provide services for other home centers within IBS. The cost of those activities is charged to an IBS entity level home center. Each month, the total costs charged to a specific IBS home center is allocated to each affiliate based on the ratio of all other charges to that affiliate to the total charges to all affiliates. In this manner, IBS’ own internal “cost of doing business” is allocated and charged to the affiliates in a cost-causal manner – in proportion to all other billings in a given month.

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In addition to the above costs, a return on working capital is allocated to all affiliates, and IBS may also incur miscellaneous costs not related to specific services. The working capital return, miscellaneous costs, operational home centers not fully “zeroed-out”, and any differences between actual overhead costs incurred and overhead costs billed, are allocated to affiliates each month based on the ratio of all other charges to that affiliate to the total charges to all affiliates.

Home centers within IBS may also procure products and services for the benefit of individual affiliates, and in such cases the associated costs are billed directly to the affiliates. Contracted labor and professional services procured to assist a home center in providing services are billed based on work performed, similar to internal labor allocations but excluding labor overhead.

Q. PLEASE DESCRIBE THE GENERAL/CORPORATE ALLOCATOR.

A. The General/Corporate Allocation Factor is 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.

Q. WHICH COSTS ARE SUBJECT TO ALLOCATION BY THE GENERAL/CORPORATE ALLOCATION FACTOR?

1 A. The general/corporate factor is used to allocate costs of certain products and services for
2 which no direct charging method or cost-causal method has been determined to be
3 practical or appropriate (as described in Exhibits B and C to the AIA).

4

5 Q. WHAT COST FACTORS GO INTO THE CALCULATION OF THE
6 GENERAL/CORPORATE ALLOCATION FACTOR?

7 A. There are two factors that are calculated for each entity within the Integrys holding
8 company system (including IBS):

9 1. Total assets, and

10

11 2. Total non-fuel operations and maintenance (“O&M”) costs.

12

13 For each factor a percentage is calculated to determine the individual company’s portion
14 of the total dollars in that factor. The average of these two percentages for an entity is
15 that entity’s allocation percentage, or factor, for the General/Corporate Allocation Factor.

16

17 For both the Cost Causal Allocation Factors and the General/Corporate Allocator, a
18 “percentage of the whole” determination is used, such that the percentage charged to an
19 entity is based on that entity’s units in the numerator, and the denominator is the sum
20 total of such units for all entities within the holding company system who take the
21 particular service for which the Allocation Factor is being utilized.

22

23 Q. ARE THE COSTS FOR SERVICES IDENTIFIED IN EXHIBIT B OF THE MASTER
24 AIA SUBJECT TO THE GENERAL/CORPORATE ALLOCATION FACTOR, THE

1 TYPE OF COSTS THAT YOU WOULD EXPECT TO BE ALLOCATED IN THIS
2 MANNER?

3 A. Yes, they are. For example, the costs of corporate governance and investor relations are
4 services that benefit all Integrys subsidiaries, but for which there is no direct way to
5 associate costs with individual subsidiaries other than by way of overall measure of
6 relative size and activity. The General/Corporate allocation methodology is representative
7 of the complexity, risk, and overall business activity levels that drive corporate
8 governance and investor relations. It also allows for a uniform allocation methodology
9 for financial reporting and regulatory purpose. The two factor allocation described above
10 as the General/Corporate Allocator has been recognized for use in the other three state
11 commissions where Integrys provides service and by the FERC.

12
13 Q. WHAT IS THE COMMISSION'S PREFERRED APPROACH TO COMPUTING THE
14 GENERAL ALLOCATOR?

15 A. The Commission prefers that the general allocator be computed using the ratio of all
16 expenses directly assigned or attributable to regulated and unregulated activities,
17 excluding the cost of fuel, gas, purchased power, and the cost of purchased goods sold.

18
19 Q. DOES THE COMMISSION ALLOW UTILITIES TO DEMONSTRATE THAT
20 OTHER METHODS OF COMPUTING THE GENERAL ALLOCATOR SHOULD BE
21 APPROVED?

22 A. Yes. The commission allows utilities to use other methods of cost allocation if the utility
23 can demonstrate that their alternative cost allocation principles produce results similar to

1 those produced by using the approved allocation principles, the public interest would be
2 better served by using alternative allocation principles, or that their unregulated
3 operations are insignificant.

4
5 Q. DOES MERC REQUEST APPROVAL OF ITS TWO-FACTOR GENERAL
6 ALLOCATOR IN THIS RATE CASE?

7 A. Yes, MERC requests that the Commission approve use of its two-factor general
8 allocation method for purposes of setting rates in this rate case.

9
10 Q. WHY DO MERC AND IBS BELIEVE THIS METHODOLOGY IS APPROPRIATE
11 FOR THE GENERAL/CORPORATE ALLOCATION FACTOR?

12 A. The appropriate general allocator depends on the unique facts and circumstances of each
13 holding company system. This is confirmed by FERC's USOA (18 CFR § 367.28),
14 which requires IBS to create a cost accumulation system and identify methods of
15 allocation, but does not prescribe any specific allocation methodology.

16
17 The two factors that IBS chose are considered a proxy for the relative size of each
18 affiliate as well as the activities that support each affiliate. While the corporate oversight
19 and compliance required for any individual entity has both fixed and variable aspects, a
20 large physical asset and investment base can add specific risk and oversight needs as well
21 as more access to capital markets. In a similar manner, the overall costs to run a
22 business, such as O&M, require differing degrees of oversight (e.g., larger and more
23 complex contracts, more employees, legal governance, higher procurement costs, etc.).

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The Integrys portfolio includes 6 regulated utilities and one non-regulated company. The nonregulated company receives allocations of costs using the two factor General/Corporate Allocator. In 2009 the nonregulated company held a larger percentage of the asset pool than they held in the O&M pool. Utilizing only one factor, O&M, would neglect to recognize the risk and oversight impacted by assets, but would also drive up the costs for many states ratepayers and reduce the allocation costs to the nonregulated company. Conversely, if the asset base was used as the only general allocation factor, utilities with large asset bases would be allocated more costs without considering the oversight involved with higher O&M costs (examples listed above). MERC and IBS believe that the two factors selected provide a fair allocation of the costs to be allocated using this General/Corporate Allocation Factor. As a result, MERC believes that the public interest is better served by the two-factor allocation method for its general allocator because it includes a factor that assists with the fair allocation of general costs by recognizing an additional factor (total assets) that contributes to cost causation.

Q. HOW DO THE RESULTS OF USING THE GENERAL/CORPORATE ALLOCATOR COMPARE TO USING OPERATING COSTS?

A. In 2009, 3.9% of the IBS operating costs were allocated to affiliates using the General/Corporate Allocator. Additionally, Exhibit _____ (TLK-3) shows the difference in costs calculated using the General/Corporate Allocation method in the Regulated AIA and the Commission’s preferred corporate/general allocation. The two methods produced

1 similar results in the test year, with a difference between the two methods of only \$5,872
2 for MERC

3
4 Q. IN CALCULATING THE TOTAL ASSETS, HOW DO YOU ACCOUNT FOR
5 DERIVATIVE ASSETS, GOODWILL AND OTHER “NON-ORDINARY” ASSETS?

6 A. These types of assets are excluded from the total asset amounts for purposes of these
7 calculations. In the case of derivative assets, accounting rules require the valuation of
8 these contracts for each reporting period prior to actual settlement of the contract. As
9 commodity prices change, the value of these assets will also change with no real change
10 in the relative value of each affiliate to the other affiliates. In the same way, certain
11 companies may have booked goodwill due to the fact that they were acquired by Integrys.
12 Other companies may have a similar but unrecorded intrinsic value, therefore such items
13 are excluded from this in order to result in a more appropriate cost allocation.

14
15 Q. PLEASE DESCRIBE THE FACTORS THAT ARE INCLUDED IN THE NON-FUEL
16 O&M CALCULATION.

17 A. All O&M costs (whether regulated or non-regulated) are included in this category.
18 Examples of such costs include O&M labor, materials, and outsides services. As noted
19 earlier, fuel, cost of goods sold, purchased power and similar costs are not included in
20 these calculations. Additionally, marked-to-market gains or losses recorded in O&M, if
21 any, are excluded.

22

1 Q. HOW REGULARLY ARE THE VARIOUS ALLOCATION INPUTS AND FACTORS
2 RE-CALCULATED?

3 A. The allocation inputs and factors that will be used in any calendar year are calculated
4 during the preparation of the annual budget for that year. Most of these inputs and
5 factors are based on the most recent month-end balance or last twelve full months of
6 activity, as appropriate. Labor overhead rates, however, are based on projections of labor
7 and overhead costs in the budgeted calendar year.

8
9 The factors and inputs are modified during the calendar year only if significant changes
10 in actual or anticipated activity were to occur.

11
12 Q. HAS INTEGRYS MADE ANY SIGNIFICANT CHANGES TO ITS STRUCTURE
13 THAT IMPACTS MERC'S 2011 ALLOCATION OF IBS COSTS?

14 A. Yes, they have. As described in the 2009 Integrys Energy Group Annual 10-K report
15 filed with the Securities and Exchange Commission, Integrys Energy, a non-regulated
16 affiliate of MERC, is in the process of:

- 17 1. Exiting the wholesale natural gas business,
 - 18 2. Exiting the wholesale electric businesses,
 - 19 3. Exiting the Canadian energy marketing business,
 - 20 4. Exiting the energy management consulting business,
 - 21 5. Exiting certain retail markets, and
 - 22 6. Divesting of a portion of its electric generation fleet.
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1 IBS provides services to Integrys Energy. Due to the changes at Integrys Energy, less
2 direct services will be provided by IBS to Integrys Energy in 2011. Therefore, the
3 metrics for calculating the cost-causal and general corporate allocation factors for all
4 Integrys subsidiaries were adjusted to reflect a smaller Integrys Energy.

5
6 The impact of the adjusted metrics for calculating the cost-causal and general corporate
7 allocation factors on MERC is reflected in MERC's allocation of 2011 IBS benefit costs.
8 In 2009, 3.5% of IBS benefit costs were allocated to MERC. In 2011, 4.6% of IBS
9 benefit costs are being allocated to MERC, as shown on Exhibit _____ (CMP-2).

10
11 However, the reduction of the IBS workforce, based on estimates at the time of the
12 budget, is also reflected in MERC's allocation of 2011 IBS costs. A known and
13 measurable reduction of approximately \$154,930 which represents MERC's allocation of
14 the cost savings associated with the elimination of 62 IBS positions, is reflected on
15 Exhibit _____ (SSD-6).

16
17 Q. HAS IBS COMPLETED THE STAFFING REDUCTION PROCESS?

18 A. No, it has not. IBS will complete the staffing reduction by the end of 2010. Updated
19 estimates can be provided to the commission upon request.

20
21 Q. HOW DOES IBS ALLOCATE COSTS FOR SERVICES THAT IT PERFORMS FOR
22 THE INTEGRYS HOLDING COMPANY ITSELF (E.G., SERVICES RELATED TO
23 THE FACT THAT INTEGRYS IS A PUBLICLY-TRADED ENTITY)?

1 A. For the sake of efficiency, these costs are allocated by IBS to the affiliates (including
2 Integrys itself) because these functions benefit all affiliates. Another option would be to
3 first charge such costs to the Integrys holding company, and then have Integrys bill its
4 various subsidiaries. However, this would not be consistent with our centralized service
5 company approach, nor with the fact that we have structured our shared services
6 organization such that Integrys officers and personnel are IBS employees.

7

8 The Integrys holding company is allocated a portion of all other relevant and applicable
9 costs that are allocated via the appropriate Allocation Factor (including the
10 General/Corporate Allocation Factor for many services), and such allocated costs are also
11 charged to and remain at the holding company level. Any costs that are not allocable by
12 the Integrys holding company to its subsidiaries (for example, most business
13 development costs) are charged to and remain at the holding company level.

14

15 Q. YOU INDICATED THAT IBS IS ALLOCATED CERTAIN COSTS AS PART OF THE
16 GENERAL/CORPORATE ALLOCATION FORMULA. ARE THOSE COSTS THEN
17 RE-ALLOCATED BY IBS TO THE AFFILIATES, SO THAT IBS CAN “ZERO-OUT”
18 ALL OF ITS COSTS? IF SO, WHY?

19 A. Yes, they are. IBS recovers, from its affiliates, all costs allocated to IBS. This is
20 appropriate because IBS was formed to provide cost-effective, inter-company services.
21 IBS allows Integrys customers to optimize the level of net savings and benefits that will
22 result from a centralized service company. Therefore, it is appropriate for IBS to recover
23 all of its reasonably incurred costs from the affiliates.

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Q. PLEASE DESCRIBE THE FEDERAL REGULATION OF IBS.

A. First, IBS is a “centralized service company” subject to FERC regulation and regulatory requirements, including the USOA promulgated by FERC for such entities. This exhaustive USOA, modeled after that used by utilities, is found in 18 CFR Part 367.

Second, IBS must also follow the detailed record retention requirements promulgated by FERC at 18 CFR Part 368.

Third, as required by 18 CFR Part 369, IBS must annually file FERC Form No. 60, the annual report required of all centralized service companies.

Finally, if necessary to determine the reasonableness of IBS’ costs, in addition to FERC’s broad authority to request information from IBS and MERC, FERC also has supplemental federal statutory authority which provides FERC access to the books and records of companies throughout the Integrys holding company system under section 1265(a) and the Energy Policy Act of 2005, if necessary to determine the reasonableness of the costs.

1 **V. CONCLUSION**

2 Q. BASED ON THE IBS COST ALLOCATION PROCEDURES DESCRIBED IN YOUR
3 TESTIMONY AND DOCUMENTED IN THE REGULATED AIA, ARE THE IBS
4 COSTS FAIRLY ASSIGNED AND ALLOCATED AMONG THE IBS AFFILIATED
5 COMPANIES?

6 A. Yes. The Regulated AIA to which MERC is a party with IBS accurately and
7 transparently assigns and allocates IBS costs to MERC and among the other IBS
8 affiliated companies, and provides reasonable assurance to the Commission that costs
9 related to MERC's Minnesota natural gas operations are fairly and accurately determined.
10

11 Q. DO YOU BELIEVE THE GENERAL/CORPORATE ALLOCATION METHOD
12 PROVIDES SIMILAR RESULTS COMPARED TO THE COMMISSION'S
13 PREFERRED GENERAL ALLOCATION METHOD, OR THAT THE COMPANY'S
14 METHOD BETTER SERVES THE PUBLIC INTEREST?

15 A. Yes, and I note that Minnesota allows utilities to propose other methods for determining
16 the general/corporate allocator. MERC and IBS believe that the two factor approach in
17 the Regulated AIA reflects the most appropriate allocation method for Integrys.
18

19 In this rate proceeding MERC seeks to recover the costs calculated using the
20 General/Corporate Allocation method in the Regulated AIA.
21

22 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

23 A. Yes, it does.

MASTER REGULATED AFFILIATED INTEREST AGREEMENT

THIS MASTER REGULATED AFFILIATED INTEREST AGREEMENT (“Agreement”) is entered into this 21st day of December, 2007, by and among Integrys Business Support, LLC, a Delaware limited liability company (“Integrys Support”) and all of the regulated subsidiaries of Integrys Energy Group, Inc. (“Integrys”) as listed and defined on Exhibit A. All of the parties to this Agreement shall be collectively referred to as “Parties,” and all of the Parties other than Integrys Support shall be collectively referred to as the “Client Companies.”

RECITALS

A. Each of the Client Companies is a state-regulated utility operating company, a wholly-owned subsidiary of Integrys, and an affiliated interest of the other Parties pursuant to the applicable public utility law of Wisconsin, Michigan, Minnesota, and Illinois.

B. In order to maximize efficiencies and economies of scale, the Parties desire to plan and operate their regulated utility businesses with the integration of certain activities by receiving services, employees, properties, information systems, property, services and/or anything else of commercial value from a single centralized service company provider.

C. Integrys Support and the Client Companies desire to enter into this Agreement whereby Integrys Support agrees to provide, and the Client Companies agree to accept and pay for, various services as described herein, with such payments by the Client Companies being at the fairly and equitably allocated costs as also provided herein.

D. From time to time Integrys Support will perform various services for or on behalf of the Client Companies, and further Integrys Support will make its property, employees and other things of value available to or for use by the Client Companies, all of which transactions are affiliated interest arrangements subject to the regulatory jurisdiction of the Public Service Commission of Wisconsin (“PSCW”), Michigan Public Service Commission (“MPSC”), Minnesota Public Utilities Commission (“MPUC”), and Illinois Commerce Commission (“ICC”).

(collectively the “Commissions”) pursuant to applicable Wisconsin, Michigan, Minnesota, and Illinois law.

NOW, THEREFORE, the Parties agree as follows:

AGREEMENT

Integrus Support and the Client Companies, in consideration of the mutual promises made in this Agreement, agree as follows:

1.0 Provision of Services by Integrus Support

1.1 The term “services” as used in this Agreement shall include management, supervisory, construction, engineering, accounting, legal, financial, human resources, information services, customer service, accounting, billing, operations and other administrative and general services, including without limitation the provision of any service or any other arrangement which among affiliates may require approvals, waivers or other authorizations under the applicable utility law of the states of Wisconsin, Michigan, Minnesota and/or Illinois.

1.2 Except as otherwise provided herein or required under applicable law, Integrus Support shall furnish to each Client Company services in those categories listed and described in Exhibit B. Integrus Support shall also furnish to each Client Company services in addition to those listed and described in Exhibit B, as may be requested by each such Client Company from time to time, provided that Integrus Support is reasonably able and willing to perform or provide such services, and further provided that if an additional category of services is requested by one or more Client Companies and is provided by Integrus Support hereunder, the Parties shall comply with the requirements of Section 7.3. In connection with its provision of services hereunder, Integrus Support may also from time to time provide or furnish property, assets, rights, interests, or other items of commercial value.

- 1.3 Integrys Support shall furnish to the Client Companies the services described in Section 1.2 in such manner as the Client Companies reasonably require from time to time, unless Integrys Support is not reasonably able to perform or provide such services or is unable to do so in a manner consistent with applicable law.
- 1.4 Notwithstanding any other provision of this Agreement, a Client Company shall, upon at least one hundred twenty (120) days prior written notice, have the right to purchase the services described in Section 1.2 from a service provider other than Integrys Support if: (i) such third party service provider offers comparable services, (ii) the Client Company presents comparable internal and external costing and service data to demonstrate to Integrys Support that the third party services would be provided at a lower all-in price than the all-in price charged by Integrys Support for such services, and (iii) the Client Company presents comparable internal and external costing and service data to demonstrate to Integrys Support that provision of the services by a third party service provider will be of overall benefit to the Integrys holding company system. With respect to any such showing by a Client Company, all relevant information that is provided by any Client Company to Integrys Support shall be copied to all of the other Client Companies.
- 1.5 In the event that any Client Company appropriately refuses to take or accept any services from Integrys Support pursuant to Section 1.4, such refusal shall not otherwise affect any other right, duty or obligation of any Party hereunder.
- 1.6 The services described herein shall be directly assigned or allocated by activity, project, program, work order or other appropriate manner on a case-by-case basis. Each Client Company may establish and document with Integrys Support its expectations and requirements with respect to any particular service to be rendered hereunder, including the establishment of targeted service and

performance levels and measures to determine whether such service level indicators are being achieved. A Client Company shall have the right from time to time to modify any activity, project, program or work order provided that (i) any such modification that results in a material change in the scope of the services to be performed or equipment to be provided is acceptable to Integrys Support, (ii) the cost for the services covered by the activity, project, program or work order shall include any expense incurred by Integrys Support as a direct result of such modification of the activity, project, program or work order, and (iii) no modification of an activity, project, program or work order shall release a Client Company from liability for payment of all direct or allocable costs already incurred by or contracted for by Integrys Support pursuant to the activity, project, program or work order, regardless of whether the services associated with such costs have been completed prior to such modification taking effect.

2.0 Determination of Costs for Services.

2.1 All services provided by Integrys Support shall be at cost, as hereinafter defined. It is the intent of the Parties that the payment for services rendered by Integrys Support to the Client Companies hereunder shall cover all of Integrys Support's costs of doing business (less the cost of services provided to affiliates not a party to this Agreement and to non-affiliated companies, and credits for miscellaneous income items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, payroll and other taxes, and compensation for use of capital (with a return on Integrys Support's net assets charged to each Client Company at a rate equal to the prevailing pre-tax weighted cost of capital (economic cost of capital)

authorized by the Commission having jurisdiction over the rates of that Client Company).

- 2.2 As compensation to Integrys Support for the services rendered hereunder, each Client Company shall pay to Integrys Support all costs which are reasonably related to the services performed by Integrys Support for or on behalf of such Client Company. Integrys Support shall maintain a detailed cost accumulation and classification system, and shall allocate costs to each Client Company pursuant to the following methodology: (i) to the extent possible and prior to allocating costs pursuant to subsections (ii) and (iii) of this Section 2.2, costs associated with a service that is specifically performed for a single Client Company will be directly assigned and billed to that Client Company; all costs directly assigned and billed to any entity taking service from Integrys Support shall be deducted from the amount being allocated in subsections (ii) and (iii) of this Section 2.2; (ii) where more than one Client Company receives benefits from a service, such amounts shall be allocated among such Client Companies (and any other affiliates within the Integrys holding company system to whom the service is rendered by Integrys Support) pursuant to the applicable cost Allocation Factor(s) set forth in Exhibit C; and (iii) where a service provided by Integrys Support is of a general nature applicable to all Client Companies, costs incurred by Integrys Support with respect to such service shall be allocated among the Client Companies (and any other affiliates within the Integrys holding company system to whom applicable services are rendered by Integrys Support) pursuant to the applicable cost Allocation Factor set forth in Exhibit C.
- 2.3 The Allocation Factors set forth in Exhibit C shall be subject to periodic review by Integrys Support in connection with the studies required by Section 4.3, and may be reviewed more frequently if deemed appropriate by Integrys Support.

- 2.4 The method of assignment or allocation of costs contemplated herein and in Exhibit C and/or the Allocation Factor or Factors assigned to any category of service in Exhibit B, may be modified or changed by Integrys Support, without amendment of this Agreement other than insertion of appropriate replacement Exhibits, provided that (i) all services rendered hereunder shall be at actual cost thereof, (ii) such costs are fairly and equitably assigned or allocated in a manner consistent with Section 2.2, and (iii) the Parties comply with the requirements of Section 7.3.
- 2.5 With respect to any charges imposed by Integrys Support for services provided under this Agreement that are subject to the jurisdiction of the FERC, no Party shall elect, or cause any affiliate to elect on their behalf, to have the FERC review pursuant to Section 1275 of the Energy Policy Act of 2005, 42 U.S.C. § 16462, the allocation of costs for goods and services provided by Integrys Support until the Commissions with jurisdiction to do so have reviewed and taken required actions regarding the affiliated interest transactions and agreements, or amendments thereto, associated with Integrys Support. If the Commissions have not completed review and approval or taken other appropriate action within a reasonable time, then any Party or its affiliate may seek such FERC review after giving the Commissions who have not so acted at least 60 days' prior written notice.
- 3.0 Billing; Payment; Related Provisions.
- 3.1 Integrys Support shall render a monthly bill to each Client Company reflecting the charges for services and property provided in the preceding month. Each bill shall include sufficient information and in sufficient detail to permit each Client Company to identify and classify the charge in terms of the system of accounts prescribed by the regulatory authorities to which it is subject.

- 3.2 Upon receipt of a monthly bill for services rendered by Integrys Support hereunder, each Client Company shall promptly pay any undisputed portion of the bill within ten (10) business days.
- 3.3 If a Client Company disputes the calculation of any portion of a monthly bill it shall, when it pays the undisputed portion as contemplated by Section 3.2 or in any event no later than sixty (60) days after receiving the bill, inform Integrys Support in writing as to its reasons for its dispute. Integrys Support and the Client Company shall then meet to resolve in good faith the dispute, and shall involve the other Client Companies in the resolution of the dispute to the extent necessary and appropriate.
- 4.0 Accounting and Recordkeeping; Annual FERC Reports; Cost Studies; Annual Client and Integrys Support Company Reports; Internal Audit.
- 4.1 All accounts and records of Integrys Support shall be kept in accordance with the relevant requirements promulgated by the FERC from time to time, including without limitation Parts 367 and 368 of the FERC's regulations. Without limiting the foregoing, Integrys Support shall maintain adequate books and records with respect to all of its transactions hereunder, and shall record the costs to be allocated to the Client Companies in appropriate accounts in its general ledger system. Integrys Support shall be responsible for maintaining internal controls to ensure the costs associated with all transactions hereunder are properly and consistently allocated and billed in accordance with the terms and provisions of this Agreement.
- 4.2 Integrys Support shall provide the Commissions and the Client Companies a copy of its FERC Form No. 60, or such other annual report required by the FERC of centralized service companies from time to time, contemporaneous with its annual filing of such report with the FERC. Integrys Support shall also file with

the Commissions, contemporaneous with its annual filing of such report with the FERC, the following schedules. These schedules shall list all costs incurred by Integrys Support and all costs allocated to all entities to whom Integrys Support provides or provided services. In Illinois, these schedules shall be filed as supplemental schedules to Form 21.

- a) A schedule summarizing the direct and indirect charges for each functional area in Exhibit B. The report shall present the dollar amounts and percentages charged to each party to this Agreement as listed in Exhibit A, as well as to all other entities that receive direct or indirect charges from Integrys Support for such functional areas.
- b) A schedule providing a breakdown by subaccount of Account 923, Outside Services Employed. The schedule shall aggregate amounts paid to any one payee in each subaccount. If one subaccount is less than \$100,000, only the aggregate number and amount of all such payments included within the subaccount shall be shown. The schedule shall include subtotals for each type of service.
- c) A schedule providing a listing of each pension and benefit program provided by Integrys Support. Such listing shall be limited to amounts over \$100,000.
- d) A schedule providing a listing of the amount included in Account 930.1, General Advertising Expenses, classifying the items according to the nature of the advertising and as defined in the account definition. If a particular class includes an amount in excess of \$100,000 applicable to a single payee, show separately the name of the payee and the aggregate amount applicable thereto.
- e) A schedule providing a listing of the amount included in Account 931, Rents, classifying such expenses by major groupings of property, as defined in the account definition of the Uniform System of Accounts in Part 367 of the FERC's regulations.
- f) A schedule providing an analysis of Account 408, Taxes Other Than Income. The report shall separate the analysis into two groups (1) other than U.S. Government taxes and (2) U.S. Government taxes. The report shall specify each of the various kinds of taxes and show the accounts thereof. A subtotal shall be provided for each class of tax.
- g) A schedule providing a listing of the amount included in Account 426.1, Donations, classifying such expense by its purpose. The aggregate number and amount of all items of less than \$100,000 may be shown in lieu of details.
- h) A schedule providing a listing of the amount included in Account 426.5, Other Deductions, classifying such expenses according to their nature.

- 4.3 At least once every three years, Integrys Support shall conduct a new study of the cost of services provided hereunder, for the purpose of testing compliance with the Agreement and to analyze the market price of services provided. The study shall be updated at least annually. Integrys Support shall provide each Client Company with a copy of each new study or update, as the case may be, no later than May 1 of the year following the end of the most recently completed fiscal year covered by the new study or update. The first such new study shall pertain to the period ending December 31, 2008, and shall be due on or before May 1, 2009.
- 4.4 Each year there shall be an internal audit of Integrys Support's transactions involving each of the Client Companies for the purpose of testing compliance with the Agreement. In addition, the audit will include a review of transactions involving other entities to whom Integrys Support provides service as well as the verification that all direct billings to regulated and non-regulated affiliates as well as unaffiliated parties, if applicable, were properly deducted prior to the allocations being calculated. The Client Companies shall submit a copy of the audit report to the person or department designated by the Commissions or the Commissions' staffs no later than July 1 of each year. In Illinois, the report shall be submitted to the ICC's Manager of the Accounting Department or any successor. The first such audit report shall pertain to the period ending December 31, 2008, and shall be due on or before July 1, 2009.
- 4.5 Each year by May 1, the Client Companies shall file with their respective Commissions, and submit a copy to the person or department designated by the Commissions or the Commissions' staffs, billing reports showing monthly charges by Integrys Support to each of the Client Companies. These reports shall show all costs incurred by Integrys Support and all costs allocated to all

entities to whom Integrys Support provides services. In Illinois, the report shall be submitted to the ICC's Manager of the Accounting Department or any successor.

5.0 Representations and Warranties of the Parties.

5.1 Each Party has the right, power, and authority to enter into and perform its obligations under this Agreement.

5.2 Each Party has taken all requisite corporate action to approve execution, delivery, and performance of this Agreement, and this Agreement constitutes a legal, valid and binding obligation of each Party enforceable in accordance with its terms.

5.3 The fulfillment of obligations hereunder will not constitute a material violation of any existing applicable law, rule, regulation, or order of any governmental authority. The Parties acknowledge that all or portions of this Agreement may be challenged before regulatory agencies or a court of competent jurisdiction by other persons or entities not Parties hereto. In such event, the Parties agree that each will use its best efforts before such agencies and courts to support the pursuit and accomplishment of the Parties' mutual endeavors hereunder.

6.0 Additional Representations, Warranties and Covenants of Integrys Support.

6.1 In its performance of services hereunder, Integrys Support: (i) shall follow applicable federal and state regulations, including codes and standards of conduct, with respect to the sharing of confidential information it receives from any Client Company with another; (ii) shall not give one or more Client Companies, or any other affiliate within the Integrys holding company system, a competitive advantage in relevant markets; and (iii) shall not subsidize any Client Company and shall not cause any Client Company to subsidize any of its affiliates.

6.2 Integrys Support shall make readily available to each Commission, FERC and/or any other governmental or regulatory agency with jurisdiction under applicable law, reasonable access to its books and records (including without limitation the basis for its computation of cost allocations) as may be necessary for each Commission or other agency to review Integrys Support's transactions with each Client Company within such Commission's or agency's jurisdiction. Without limiting the foregoing, each Commission shall have full access to the books and records of Integrys Support as contemplated under applicable law, which access shall be made readily available to each Commission in their respective states.

7.0 Additional Provisions.

7.1 This Agreement shall become effective upon the issuance of approvals or waivers as might be required by law, from each and all of the Commissions, and upon execution of the Agreement by all of the Parties. Once effective, this Agreement shall continue in full force and effect until and unless modified or terminated as provided herein.

7.2 This Agreement may be amended or modified at any time by mutual agreement of the Parties in writing. This Agreement, and any rights hereunder, may not be assigned without the written consent of all Parties hereto. Except as otherwise provided herein or under applicable law, any such modification, amendment or assignment shall not become effective until receipt of approvals or waivers by the Commissions as might be required by law. The addition of a Party to this Agreement, or the termination of this Agreement as to a Party, shall not require the prior approval of the Commissions, but in either case Integrys Support shall provide the Commissions at least sixty (60) days prior written notice of such event.

- 7.3 At least sixty (60) days prior to any change to (i) Exhibit A reflecting the current Parties to this Agreement, (ii) Exhibit B reflecting the services and categories of service provided by Integrys Support hereunder, and/or (iii) Exhibit C reflecting all Allocation Factors in use hereunder, Integrys Support shall provide to the Client Companies, and the Client Companies shall file with the Commissions and, if appropriate, the FERC, a revised version of such Exhibit(s) to be changed along with an indication of what change(s) will be made.
- 7.4 At least sixty (60) days prior to leaving the Integrys holding company system, a Client Company shall provide written notice to Integrys Support, and Integrys Support will then copy the other Parties and the Commissions as soon as practicable upon receipt of any such notice. Any such Client Company may continue to receive services from Integrys Support for a reasonable transitional period of time following such departure from the Integrys holding company system.
- 7.5 In providing all services, Integrys Support may arrange, where it deems appropriate, for the services of such third party experts, consultants, attorneys, advisers, or other contractors or agents with necessary qualifications as may be required for or pertinent to the performance of services for the Client Companies hereunder.
- 7.6 Each Party shall treat in confidence all information that it may obtain from or regarding the other Parties and their respective businesses during the term of this Agreement. Each Party agrees to protect the other Parties' information using the same degree of care with which they use to protect their own confidential information, and in no event less than reasonable care. Except to the extent disclosure of such information is required by a governmental authority having jurisdiction, such information shall not be communicated to any person other than

the Parties, and shall be shared among the Parties only to the extent certain persons need to know such information in order for the Parties to perform under this Agreement. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The requirements of this Section 7.6 shall not apply with respect to information that (i) is or becomes available to such Party from a source other than the Party providing such information, unless such other source has imposed confidentiality restrictions, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

- 7.7 The Parties agree and acknowledge that any legal advice or legal services provided, or arranged to be provided, by or on behalf of Integrys Support to one or more of the Client Companies will be for the direct or indirect benefit or common interest of all of the Client Companies, and it is therefore the intention of all Parties hereto to maintain all privileges that may apply to any communications related to the provision or receipt of such legal advice or services.
- 7.8 The Client Companies hereby appoint Integrys Support as agent to represent them in performing services for or on behalf of the Client Companies. The Client Companies also authorize Integrys Support to purchase (i.e., take title to) various commodities, goods and assets in connection with its performance of services hereunder, and to resell (i.e., convey title to) such commodities, goods and assets to the Client Companies if necessary in the course of performing services hereunder. Any resale of such commodities, goods and assets by Integrys Support to the Client Companies, and/or any use of such commodities, goods and assets by Integrys Support in its provision of services hereunder, shall be at


the costs incurred by Integrys Support, allocated among the Client Companies pursuant to the methodologies prescribed herein. Integrys Support shall be accountable for all funds advanced or collected on behalf of a Client Company in connection with any transaction in respect of which Integrys Support provides services. The provision of services by Integrys Support hereunder shall in all cases and notwithstanding anything herein to the contrary be subject to any limitations contained in authorizations, rules or regulations of those governmental agencies having jurisdiction over Integrys Support or its provision of services hereunder.

- 7.9 In the event that any amendment to this Agreement does not receive any approval or waiver of approval by all Commissions that may be required from time to time, then the Parties shall promptly negotiate in good faith new provisions to restore such amendment, as nearly as possible, to its original intent and effect, and thereafter file for approval or waiver of approval of the Commissions.
- 7.10 If any governmental or regulatory agency or court of competent jurisdiction holds that any provision of this Agreement is invalid, or otherwise takes action resulting in the impossibility or impracticability of performance of all or a portion of this Agreement, the remainder of this Agreement shall not be affected thereby and shall continue in full force and effect. In the event any provision of this Agreement is so held invalid, the Parties hereto shall promptly renegotiate in good faith new provisions to restore this Agreement as nearly as possible to its original intent and effect.
- 7.11 No course of dealing or course of performance between the Parties shall be construed to alter the terms hereof.

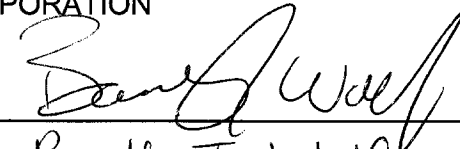
- 7.12 The Parties agree that there is no third party beneficiary of this Agreement and that the provisions of this Agreement do not impart enforceable rights to anyone who is not a Party.
- 7.13 This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to principles of conflicts of law; provided, however, that no Client Company shall be required to comply with this Agreement to the extent such compliance would be a violation of the public utility laws of any state in which such Client Company conducts its regulated utility operations.
- 7.14 This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized as of the day and year first above written.


INTEGRYS BUSINESS SUPPORT, LLC

By 
Name Barth J. Wolf
Title Secretary

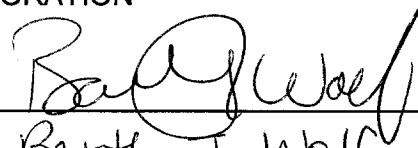
WISCONSIN PUBLIC SERVICE CORPORATION

By 
Name Barth J. Wolf
Title Secretary

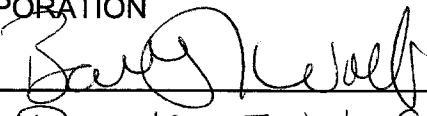
UPPER PENINSULA POWER COMPANY

By 
Name Barth J. Wolf
Title Secretary

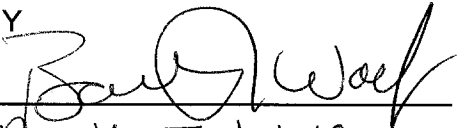
MICHIGAN GAS UTILITIES CORPORATION

By 
Name Barth J. Wolf
Title Secretary

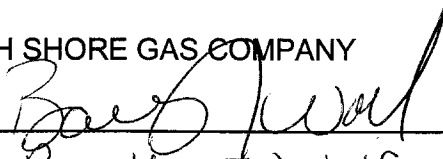
MINNESOTA ENERGY RESOURCES CORPORATION

By 
Name Barth J. Wolf
Title Secretary

THE PEOPLES GAS LIGHT AND COKE COMPANY

By 
Name Barth J. Wolf
Title Secretary

NORTH SHORE GAS COMPANY

By 
Name Barth J. Wolf
Title Secretary

Dated:
December 21, 2007

Exhibit A

Client Company Parties to the Master Regulated Affiliated Interest Agreement

Michigan Gas Utilities Corporation

a Delaware-incorporated Michigan public utility headquartered in Green Bay, Wisconsin, engaged in the business of providing natural gas service

Minnesota Energy Resources Corporation

a Delaware-incorporated Minnesota public utility headquartered in Green Bay, Wisconsin, engaged in the business of providing natural gas service

North Shore Gas Company

an Illinois public utility corporation headquartered in Chicago, Illinois, engaged in the business of providing natural gas service

The Peoples Gas Light and Coke Company

an Illinois public utility corporation headquartered in Chicago, Illinois, engaged in the business of providing natural gas service

Upper Peninsula Power Company

a Michigan public utility corporation headquartered in Houghton, Michigan, engaged in the business of providing regulated electric service

Wisconsin Public Service Corporation

a Wisconsin public utility corporation headquartered in Green Bay, Wisconsin, engaged in the business of providing regulated electric and natural gas service

Exhibit B – Reg AIA

1. Administrative services

Facility management services for owned and leased facilities, excluding power plants. This includes operations and maintenance of structures, capital improvements, interior space planning, security and janitorial. Acquisition and management of real estate and land rights including easements and right-of-ways. Printing services.

Expected Allocation Factors – (1) Square Footage; (2) Number of Office Moves; (3) FTE Work Estimate; (4) Number of Employees; (5) Dollars Associated with Number of Imprints.

2. Corporate development

Strategic planning, merger and acquisition analysis and support, market intelligence, project management, business and quality improvement processes, business development, asset analysis and divestiture, and resource allocation. Determine, implement and track corporate performance goals, initiatives and measures.

Expected Allocation Factors – (1) General/Corporate.

3. Corporate secretary

Corporate secretarial services required of a publicly held corporation, including shareholder, board of director and related committee meetings and minutes.

Expected Allocation Factors – (1) General/Corporate.

4. Environmental

Performance of assessments, investigations, remediation and other activities as required to ensure compliance with applicable environmental statutes and regulations, permitting, licensing, due diligence, waste management and emergency response.

Expected Allocation Factors – (1) FTE Work Estimate.

5. Executive management

Executive management and oversight. Includes the formulation of general business plans and policies, selection of key management personnel, and allocation of financial resources.

Expected Allocation Factors – (1) General/Corporate.

6. External affairs

Preparation and dissemination of information to employees, customers, government officials, the public and the media. Governmental relations, community support and economic development. Analysis and formulation of regulatory policy, rate case preparation and rate administration.

Expected Allocation Factors – (1) Total Property, Plant and Equipment; (2) Number of Employees; (3) General/Corporate; (4) Number of Customers.

7. Financial services

Accounting, finance, treasury, tax, internal audit and relating financial services. Maintain corporate books and records, prepare financial and statistical reports, process payments to vendors, ensure compliance with tax laws and regulations, manage debt and maintain banking relationships, invest pension assets, establish and monitor internal controls, perform financial and risk analysis, prepare budgets and forecasts, maintain shareholder records, and communicate with the investment.

Expected Allocation Factors – (1) Number of Invoices Processed; (2) Number of Transactions; (3) Total Property, Plant and Equipment; (4) Number of Employees; (5) FTE Work Estimate; (6) General/Corporate.

8. Human resources

Establishment and administration of policies and assuring compliance with legal requirements in the areas of employment, compensation, benefits and employee health and safety. Provide payroll and employee benefit administration. Provide employee training and development, recruiting and staffing services, employee communications and labor relations management.

Expected Allocation Factors – (1) Number of Employees.

9. Information technology

Telecommunications and electronic data processing services such as computer operations, software development and maintenance, network support, end-user support, database administration and information systems security.

Expected Allocation Factors – (1) Number of Personal Computers; (2) Number of Clicks; (3) Number of Phone Lines; (4) Number of Employees; (5) Application Allocator; (6) Mainframe CPU and Disk Storage; (7) Number of Devices; (8) Number of Meters; (9) Call Volume; (10) Square Footage; (11) Number of Radios; (12) Number of Mobile Data Devices; (13) Number of Customers.

10. Legal services

Provision of all types of legal advice and related services including legal services related to corporate, commercial and contracts, litigation, regulatory, securities, real estate, legislative, employment and benefits, tax, intellectual property matters. In addition, insurance (procurement, management and general advice), claims management, corporate records (policies, procedures and management) and compliance (compliance with laws, ethics and code of conduct) services will also be provided.

Expected Allocation Factors – (1) General/Corporate.

11. Supply chain

Acquisition and provision of goods and services other than fuel, energy commodities or energy transmission. Material inventory management, contract administration services, warehousing and logistics services. Establishment of standards, purchase and oversee the operation and maintenance of vehicles and related equipment.

Expected Allocation Factors – (1) Total Spend; (2) Number of Fleet Assets; (3) Dollars Associated with Number of Inventory Issues.

12. Gas engineering

Engineering support to gas distribution operations. Design and monitor the construction and maintenance of gas distribution lines. Ensure that construction activity is consistent with plans. Coordinate the planning and operation of gas distribution systems. Perform operational reviews of completed construction and maintenance work of gas distribution lines. Operate meter shops.

Expected Allocation Factors – (1) Feet of Installed/Replaced Pipeline; (2) Number of Meters Repaired; (3) FTE Work Estimate; (4) Number of Union Employees.

13. Gas supply

Administrative functions related to purchasing, marketing and selling natural gas (including hedging and other risk management tools); scheduling, interrupting and curtailing natural gas deliveries; acquiring, selling, releasing and managing pipeline transportation capacity or storage capacity; gas control operations; and operating utility-owned underground gas storage fields. This function excludes all functions that are not ministerial in nature and excludes contract ownership, as each Client Company will continue to hold gas supply and capacity contracts in its own name.

Expected Allocation Factors – (1) Gas Throughput; (2) Peak Day Capacity; (3) FTE Work Estimate.

14. Customer relations

Provide services and systems dedicated to customer service, including meter reading and billing, credit, collections, customer relations, call center operations, revenue assurance, account management, market research and customer strategy.

Expected Allocation Factors – (1) Number of Customers; (2) Number of Transportation Customers.

15. Project Services

Provide project management functions throughout the project life cycle from problem definition and concept development to project execution and performance validation. Offerings to affiliates include participation in business planning, Project Support Office services, problem solving and concept development, business case development, Competitive Excellence process improvement services, portfolio management, project management, and Dam safety program management.

Expected Allocation Factors – 1) Hydro MW Distribution; 2) FTE work estimate.

Exhibit C – Reg AIA

Costs will be allocated through a tiered approach. This allocation methodology reflects operational aspects of the charge and applies costs in a meaningful and impartial method.

First and foremost, costs will be directly charged whenever appropriate and practicable. Direct charging is essentially a “100% allocation” of costs related to a particular service to the one entity receiving that service.

Second, where direct charging is not appropriate, costs will be allocated using cost causation principles that link costs related to a specific type of service to the customers receiving such service.

All other cost allocations will be broad based with a generalized cost basis proxy.

Specific Allocation Factors:

Number of Customers – Based on the average number of customers (electric and/or gas) at the end of 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.

Number of Employees - Based on the average number of employees included in the budget that is being 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.

Number of Union Employees - Based on the average number of union employees at the end of 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.

Number of Meters – Based on the average number of meters (electric and/or gas) at the end of 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.

Number of Invoices Processed – Based on the average number of invoices processed at the end of 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.

Number of Transactions – Based on the average number of transactions processed in the system at the end of 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.

Number of Personal Computers – Based on the average number of personal computers at the end of 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.

Number of Phone Lines – Based on the average number of phone lines at the end of 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.

Mainframe CPU and Disk Storage – Based on the number of CPU cycles used by the application divided by the total number of used CPU cycles and the total bytes of data storage used by the application divided by the total bytes used for mainframe storage 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.

Number of Clicks – Based on the average number of clicks on the website page at the end of 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.

Number of Devices – Based on the number of devices 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.

Number of Mobile Data Devices – Based on the average number of mobile data devices at the end of 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.

Number of Radios – Based on the number of radios 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.

Dollars Associated with Number of Imprints – Based on the dollars associated with the number of imprints 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.

Number of Office Moves – Based on the average number of office moves 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.

Total Spend – Based on the average total spend at the end of 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.

Total Property, Plant and Equipment – Based on average property, plant and equipment at the end of 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.

Square Footage – Based on average square footage occupied 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.

Call Volume – Based on average call volume of the most recent calendar year 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.

Application Allocator – Based on the allocation of the specific application being worked on. 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.

Full Time Equivalent (FTE) Work Estimate – Based on a recurring, predictable level of service. 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.

General/Corporate – Based on an equal weighting of a 13-month average of assets (excluding hedge assets, goodwill, and non-ordinary assets) for the most recent 13 months at the time the budget is prepared and average annual 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.

Gas Throughput – Based on gas throughput in dekatherms (sales and transportation) 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.

Feet of Installed/Replaced Pipeline – Based on average number of feet installed/replaced 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.

Dollars Associated with Number of Inventory Issues – Based on the dollars associated with the number of inventory issues 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.

Number of Fleet Assets – Based on the average number of fleet assets at the end of 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.

Hydro MW Distribution – Based on the percentage per hydro region of rated generation in megawatts (MW), the numerator of which is for an individual hydro region and the denominator of which is for all hydro regions. This ratio will be revised annually at budget time if there are additions or deletions of hydro units, or changes in ownership percentages of existing hydro units, within the hydro regions.

Number of Meters Repaired – Based on the average number of meters repaired at the end of 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.

Peak Day Capacity (gas) – Based on the highest daily send out in therms (excluding transportation) 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.

Number of Transportation Customers – Based on the average number of transportation customers at the end of 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.

Asset Ownership by Integrys Business Support

| Type of Asset | Allocation Method |
|--|---|
| PP&E Used in Operations | N/A |
| Leases | All leasehold costs included in space allocation pool. Allocation between IBS and other tenants based on square footage of usable space. IBS portion of cost included in space cost labor overhead. Special purpose space usage billed separately based on specific use. |
| Leasehold Improvements | Includes depreciation, return, and non-capitalized costs in space allocation cost pool. Allocation between IBS and other tenants based on square footage of usable space. IBS portion of cost included in space cost labor overhead. Special purpose space usage billed separately based on specific use. |
| Buildings | Includes depreciation, return, and non-capitalized costs in space allocation cost pool. Allocation between IBS and other tenants based on square footage of usable space. IBS portion of cost included in space cost labor overhead. Special purpose space usage billed separately based on specific use. |
| Furniture, Equipment and PCs | Includes depreciation, return, and non-capitalized costs in space allocation cost pool. |
| Telecommunications, Excluding Equipment Specifically Used for Gas or Energy Supply Control | Includes depreciation, return, and non-capitalized costs. Allocated by number of phone lines. |
| Large Equipment in Print/Copy Shop and Inserters | Charge based on service provided. Total number of imprints. |
| Mainframe/ Servers | Includes depreciation, return and non-capitalized costs. Allocated by number of PCs. |
| Software | Includes depreciation, return and non-capitalized costs in Software pool. Allocate to each company based on specific application allocators, as appropriate. |
| Miscellaneous IT Equipment (e.g. tape drives, special storage units, UPS equipment, etc) | Includes depreciation, return and non-capitalized costs. Allocation based on corporate cost allocator. |
| Environmental Equipment and Vehicles, including Water Quality Equipment, Lab Equipment, Boat, ATV, and Dataloggers | Includes depreciation, return and non-capitalized costs in Environmental equipment cost pool. Allocation based on allocation of services from Environmental area. Total Environmental labor billings. |

Integrus Business Support, LLC
2009 - IBS Product and Service using the General Corporate Allocator (GCA) by Business Unit

Two Factor Formula O&M and Assets

| | Total Product & Services using GCA | TEG 3.26% | WPS Leasing 0.07% | WPSC 38.20% | TEGE 19.28% | PGL 26.06% | NSG 3.91% | UPPCO 3.10% | MGU 2.85% | MERC 3.28% |
|---|---------------------------------------|--------------|-------------------------|----------------|----------------|---------------|--------------|----------------|--------------|------------------|
| Total Sum of Labor & Non Labor Indirect | \$15,133,061 | \$493,289 | \$9,932 | \$5,780,425 | \$2,918,353 | \$3,943,005 | \$590,954 | \$468,459 | \$432,042 | \$496,600 |

One Factor Formula O&M (Illustrative)

| | Total Product & Services using GCA | TEG 0.64% | WPS Leasing 0.00% | WPSC 41.07% | TEGE 16.74% | PGL 28.07% | NSG 4.20% | UPPCO 3.55% | MGU 2.49% | MERC 3.24% |
|---|---------------------------------------|--------------|-------------------------|----------------|----------------|---------------|--------------|----------------|--------------|------------------|
| Total Sum of Labor & Non Labor Indirect | \$15,133,061 | \$97,136 | \$0 | \$6,214,721 | \$2,533,978 | \$4,247,417 | \$635,714 | \$536,654 | \$376,714 | \$490,728 |
| Variance by Business Unit | | \$396,153 | \$9,932 | -\$434,295 | \$384,376 | -\$304,412 | -\$44,760 | -\$68,194 | \$55,329 | \$5,872 |

