STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

WPS Resources Corporation, Peoples Energy Corporation, The Peoples Gas Light and Coke Company, and North Shore Gas Company	)	
Application pursuant to Section 7-204 of the Public Utilities Act for authority to engage in a Reorganization, to enter into an agreement with affiliated interests pursuant to Section 7-101, and for such other approvals as may be required under the Public Utilities Act to effectuate the Reorganization.	)	Docket No. 06-_________

APPLICATION

WPS RESOURCES CORPORATION

PEOPLES ENERGY CORPORATION
THE PEOPLES GAS LIGHT AND COKE COMPANY
NORTH SHORE GAS COMPANY

Paul F. Hanzlik
Bruce W. Doughty
Cynthia A. Fonner
FOLEY & LARDNER LLP
321 North Clark Street, Suite 2800
Chicago, Illinois 60610-4764
(312) 832-4500

Allen W. Williams, Jr.
Bradley D. Jackson
David A. Meisinger
FOLEY & LARDNER LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400

Theodore R. Tetzlaff
Gerard T. Fox
Mary Klyasheff
PEOPLES ENERGY CORPORATION
Office of General Counsel
130 East Randolph Street
Chicago, Illinois 60601
(312) 240-4800

Allan Horwich
Owen E. MacBride
Samantha C. Norris
6600 Sears Tower
Chicago, Illinois 60606
(312) 258-5500

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I. INTRODUCTION

This Application seeks the required approvals of the Illinois Commerce Commission (the "Commission") for a "reorganization" of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (collectively, Peoples Gas and North Shore are referred to herein as the "Gas Companies"). The reorganization is a series of transactions, including a merger, by which Peoples Energy Corporation ("PEC"), the Illinois parent holding company of the Gas Companies, will become a wholly-owned subsidiary of WPS Resources Corporation ("WPS Resources"), a financially strong and highly respected Wisconsin holding company with regulated natural gas operations in Wisconsin, Michigan, and Minnesota, and regulated electric operations in Wisconsin and Michigan. WPS Resources, PEC, Peoples Gas and North Shore are collectively referred to as "Applicants".

This merger will create a combined energy company with nearly 1,700,000 natural gas utility customers throughout the Midwest, approximately 477,000 electric utility customers in Wisconsin and Michigan, and non-regulated energy operations in many parts of the United States and Canada. The parent holding company will be renamed and headquartered in Chicago. The Gas Companies' customers will benefit from the combined company's financial strength, excellent customer service and focus on the integrity of its relationships with customers, regulators and other stakeholders.

Applicants do not seek increases in the Gas Companies' base rates as a condition of the reorganization. As a direct result of the reorganization, the Gas Companies' filing of general rate cases will be postponed. Under WPS Resources' proposed rate plan for the Gas Companies, they will file general rate cases in early 2007, for adjustments effective in early 2008. Under this plan, the Gas Companies would not file general rate cases again until 2009 at the earliest. WPS Resources' proposed rate plan provides a fair and reasonable sharing of both the synergy savings generated by the Reorganization and the costs to achieve those savings.

In addition, WPS Resources is willing to accelerate Peoples Gas' program to replace the large amount of cast iron mains in its distribution system in Chicago, and upgrade ancillary equipment like meters. This acceleration would speed the enhancement of the reliability and efficiency, and the reduction in operation and maintenance costs, of the distribution system provided by the Peoples Gas replacement program. The acceleration of this program would bring these benefits to customers sooner than if the Reorganization had not occurred.

WPS Resources and PEC are eager to proceed with this merger and to achieve the synergistic benefits it will generate. Applicants request approval of this Application in sufficient time to enable a closing on or shortly after January 1, 2007.

A. <u>The Reorganization</u>

PEC, an Illinois corporation, WPS Resources, a Wisconsin corporation, and Wedge Acquisition Corp., an Illinois corporation and wholly-owned subsidiary of WPS Resources ("Wedge"), have entered into an Agreement and Plan of Merger, dated July 8, 2006 (the "Agreement," a copy of which is attached to this Application as Attachment A), pursuant to which: (1) WPS Resources will acquire the stock of PEC by exchanging that stock for WPS Resources stock; (2) Wedge will merge with and into PEC; and (3) PEC will survive as a wholly-owned direct subsidiary of WPS Resources (the "Reorganization" or the "Merger"). As a result of the Reorganization, WPS Resources will become the indirect owner of 100% of the common stock of the Gas Companies.[1]

B. PEC and Its Affiliates

PEC owns the Gas Companies, energy marketing companies serving customers in the Midwest, and a Houston-based oil and gas production company.[2] The Gas Companies are each an Illinois public utility within the meaning of Section 3-105 of the Illinois Public Utilities Act (the "Act" or "PUA"). 220 ILCS 5/3-105. Upon consummation of the Reorganization (the "Closing"), the Gas Companies will continue to operate separately as they did prior to the Closing, but as wholly-owned indirect subsidiaries of WPS Resources. Peoples Gas and North Shore will each retain their current names and current headquarters in Chicago and Waukegan, respectively, will each continue to operate as an Illinois public utility, and will each remain subject to Commission jurisdiction and applicable Illinois law and regulations.

C. WPS Resources and Its Affiliates

WPS Resources is a Wisconsin public utility holding company, currently headquartered in Green Bay, Wisconsin. WPS Resources has five major energy-related subsidiaries. WPS Resources is not an Illinois public utility, and will not become one after the Closing. Following the Closing, WPS Resources will move its headquarters to Chicago, and will be known under a new name, which will be chosen pursuant to the procedure set forth in the Agreement.

[1] Under the Agreement, WPS Resources also will become the indirect owner of 100% of the common equity of the non-regulated subsidiaries of PEC. Such transactions are not subject to the Commission's jurisdiction, although additional required regulatory approvals relating to these transactions are being requested as described below in this Application. Certain of the schedules to the Agreement contain confidential and proprietary information of one or more of the parties, and therefore have been filed as "Confidential and Proprietary."

[2] PEC owns other subsidiaries, as discussed below.

WPS Resources currently owns four regulated utility companies with operations in Wisconsin, Michigan and Minnesota. WPS Resources' largest subsidiary, Wisconsin Public Service Corporation ("WPSC"), is an integrated electric and gas utility that traces its corporate beginnings back to 1883. WPSC currently serves more than 425,000 electric customers and 308,000 gas customers in northeastern and north central Wisconsin and Michigan's Upper Peninsula. Upper Peninsula Power Company ("UPPCo") provides electric utility service to approximately 52,000 customers in Michigan's Upper Peninsula. Michigan Gas Utilities Corporation ("MGU") furnishes gas utility service to approximately 161,000 customers in lower Michigan. Minnesota Energy Resources Corporation ("MERC") provides natural gas utility service to more than 200,000 customers throughout Minnesota.

D. Benefits of the Reorganization

The Reorganization will provide significant benefits to the Gas Companies' customers, their employees, and the Illinois communities they serve. The Reorganization will create a leading, diversified energy company with regulated utilities serving four Midwestern states, and non-regulated businesses serving customers primarily in the Midwest, the Northeast, Texas, and Canada.

WPS Resources is fully capable, willing, and ready to undertake the Reorganization. Recognized in 2006 as *Fortune* magazine's "Most Admired Company" in the energy industry and as one of the "Best Managed Utility Companies in America" by *Forbes* magazine, WPS Resources brings to the Reorganization a team of highly qualified leaders, managers, and employees. This group has years of experience running utilities effectively and efficiently, providing safe, reliable and cost-effective energy delivery, and responsive customer service. WPS Resources also has extensive recent experience in successfully integrating new affiliates, namely UPPCo in 1998, Wisconsin Fuel & Light Company (which was merged into WPSC) in 2000, and, most recently, MGU and MERC during 2006.

WPS Resources has strong, investment grade credit ratings, substantial financial resources, and a proven record of integrating utility operations. WPS Resources will give the Gas Companies a larger and stronger financial platform for making investments to maintain safety and improve reliability and customer service. This enhanced financial platform, along with WPS Resources' commitment to industry best practices and operational excellence, will enhance the Gas Companies' performance and efficiencies. Customers of the Gas Companies will further benefit from WPS Resources' strong and proven commitment to customer service.

In addition, the Reorganization is expected to produce significant synergies and cost savings over time. WPS Resources and PEC have already identified approximately $94 million of potential annual synergy savings that would be achieved over time for the combined company as a whole. Achieving these savings will cost approximately $186 million in non-recurring costs, most of which will be incurred through 2010. A preliminary allocation of these synergy savings and costs, as described in detail by Mr. Thomas J. Flaherty, Senior Vice President of Booz Allen Hamilton Inc., in his direct testimony being submitted with this Application, shows an allocation to the Gas Companies of $77 million in net synergy savings over the first five years following the Closing.

WPS Resources does not seek general increases in the Gas Companies' rates as a condition of the Reorganization. However, the Gas Companies have not had any general rate increases since November 1995, a period of almost eleven years, and they had publicly stated their intent to file during 2006 prior to the execution of the Agreement. As a direct result of the Reorganization, the Gas Companies' filings have been postponed until early 2007, which means that their customers will see no increase in base rates until early 2008. Under the rate plan proposed by WPS Resources, the Gas Companies would base their 2007 rate proposals on an historical test year that will not include any adjustments for synergy savings or costs associated with the Merger. The Gas Companies would not file for general rate increases again until 2009 at the earliest, increases that would not take effect until 2010. This rate plan will provide a fair and reasonable sharing of synergy savings and costs between the Gas Companies and their customers.

WPS Resources will also emphasize strong employee relations. As the Reorganization will create a larger, more diverse organization, the combined company will offer the Gas Companies' employees greater opportunities in a broader service area. Mr. Lawrence T. Borgard, WPSC's President and Chief Operating Officer – Energy Delivery, describes these benefits in greater detail in his direct testimony being submitted with this Application. WPS Resources intends to eliminate redundancies and align its work force properly with work load, which it expects to accomplish through normal attrition as much as practicable. Applicants will work closely with employees of the combined company to maximize the benefits of the Merger and to realize anticipated synergies.

WPS Resources and PEC both have strong traditions of service and commitment to the communities they serve, supporting a variety of civic, community, and philanthropic efforts. These traditions will continue after the Closing. Existing philanthropic pledges will be honored, and future charitable requests will be thoughtfully considered, with the objective of supporting those causes that will most benefit the Gas Companies' customers and their communities. It is in the best interests of both WPS Resources and the communities that the Gas Companies serve that the economic prospects of those communities be enhanced, and that the Gas Companies continue to have a strong local presence.

The Reorganization represents an important opportunity for the Gas Companies, their customers, their employees, and the communities they serve. As shown in this Application, the Reorganization is significantly beneficial to customers, employees, shareholders, and the communities the Gas Companies serve. WPS Resources is committed to assuring that the Gas Companies' customers receive safe, adequate, reliable, and reasonably priced energy services, as well as excellent customer service. WPS Resources is eager to begin working to achieve these goals, and looks forward to enjoying the same strong and productive relationships with the Gas Companies' customers, employees, and regulators that it enjoys with its existing customers, employees, and regulators in the upper Midwest.

E. Time is of the Essence

To begin realizing the many anticipated benefits of the Reorganization as soon as practicable, to avoid the risk of the Gas Companies incurring higher tax liabilities, and to minimize the uncertainty and stress to employees resulting from the pendency of the Reorganization, Applicants are seeking to close the Merger on or shortly after January 1, 2007. Accordingly, Applicants seek an order from this Commission approving the Application on or before December 28, 2006.

II. APPROVALS AND OTHER RELIEF REQUESTED

The Reorganization requires a number of approvals and other relief from the Commission. Accordingly, Applicants request in this Application the following:

(a) the Commission's approval, under Sections 7-204 and 7-204A, to engage in the Reorganization, through which WPS Resources – by acquiring

100% of the common stock of PEC – will indirectly acquire 100% of the voting stock of the Gas Companies, as more fully explained in Section IV.A. below;

(b) the Commission's approvals, pursuant to Section 7-204(c) of the PUA, of (i) Applicants' proposed allocation of synergy savings between shareholders and the customers of the Gas Companies, as reflected in the proposed rate plan (ii) the Gas Companies' deferral for future recovery, through creation of a regulatory asset, of the costs to achieve synergy savings that are allocated to the Gas Companies as described in this Application, (iii) the Gas Companies' amortization of the regulatory assets beginning in 2010, and (iv) the Gas Companies' recovery of the annual amortization in any rate case filed by the Gas Companies using a test year beginning on or after January 1, 2010, and ending before or on December 31, 2013, all as more fully explained in Section IV.B. below;

(c) the Commission's approval under Section 7-102 of the PUA (to the extent required) to engage in the Reorganization, as more fully explained in Section IV.C. below;

(d) the Commission's authorization, pursuant to Sections 7-101 and 7-204A(b) of the PUA, for entry by the Gas Companies into an affiliated interest agreement by which they will receive shared corporate and other services from WPS Resources and WPSC, as more fully explained in Section IV.D. below;

(e) the Commission's approval of the proposed accounting entries associated with the Reorganization, as more fully explained in Section IV.E. below;

(f) the Commission's approval, pursuant to Sections 9-201 and 9-220 of the PUA, for the Gas Companies to change the reconciliation years in their Gas Charge (Rider 2) and Environmental Activities (Rider 11) tariffs from the 12 months ending September 30 to the 12 months ending December 31, so as to provide for annual reconciliation proceedings on a calendar year basis rather than the current fiscal year basis, as more fully explained in Section IV.F. below;

(g) a finding by the Commission, pursuant to Section 7-204(f) of the PUA, that any adjustments made to the books of account of the Gas Companies for financial reporting purposes as a result of purchase or "push down" accounting for the Reorganization will be disregarded for regulatory reporting purposes and for ratemaking purposes in future rate proceedings, as more fully explained in Section III.E.3. below;

(h) a finding by the Commission, pursuant to Section 7-204(f) of the PUA, that should the Reorganization not close on or shortly after January 1, 2007, and should the Gas Companies be unable to fully mitigate the higher tax liability, the Gas Companies may reflect in future rate proceedings the revenue requirement impact of higher tax liabilities due to the recognition for tax purposes of a temporary reduction in Last In, First Out ("LIFO") gas in storage inventory as of the Closing, as explained more fully in Section III.E.4. below; and

(i) the Commission’s authorization for taking such other measures in connection with the Reorganization as may be reasonably necessary for effecting the Reorganization.

III. THE REORGANIZATION

A. Parties to the Reorganization and Their Affiliates

WPS Resources Corporation, a Wisconsin corporation, is a holding company with five major energy-related subsidiaries: WPSC; UPPCo; MGU; MERC; and WPS Energy Services, Inc. (“ESI”). These subsidiaries provide electric and natural gas energy and related services in both regulated and non-regulated energy markets.[3] WPS Resources’ regulated operations serve customers in Wisconsin, Michigan, and Minnesota, and its non-regulated businesses serve customers primarily in the northeastern United States, Texas, and Canada.

Wisconsin Public Service Corporation is a Wisconsin corporation and WPS Resources’ largest subsidiary. WPSC provides regulated electric and natural gas utility service to more than 425,000 electric customers and 308,000 natural gas customers in northeastern and north central Wisconsin and a portion of Michigan’s Upper Peninsula.

Upper Peninsula Power Company is a Michigan corporation that provides regulated electric service to approximately 52,000 customers in Michigan’s Upper Peninsula.

Michigan Gas Utilities Corporation is a Delaware corporation that provides regulated natural gas service to approximately 161,000 customers in lower Michigan.

Minnesota Energy Resources Corporation is a Delaware corporation that provides regulated natural gas service to more than 200,000 customers throughout Minnesota.

[3] WPS Resources also has less substantial subsidiaries.

WPS Energy Services, Inc. is a Wisconsin corporation and WPS Resources' major non-regulated subsidiary. A diversified, non-regulated energy supply and services company, ESI serves commercial, industrial and wholesale customers, as well as aggregated groups of residential customers. ESI's operations are in Illinois, Maine, Michigan, Ohio, Texas, Virginia, and Wisconsin in the United States, and Alberta, Ontario, and Quebec in Canada, while its principal markets are the northeastern quadrant of the United States and adjacent portions of Canada. ESI owns and/or operates non-regulated electric generation facilities in Wisconsin, Maine, Pennsylvania, New York, and New Brunswick, Canada; steam production facilities in Arkansas and Oregon; and a partial interest in a synthetic fuel processing facility in Kentucky.

Peoples Energy Corporation, an Illinois corporation, is a holding company with four primary business segments: gas distribution; oil and gas production; energy assets; and energy marketing. Its gas distribution segment includes two regulated Illinois distribution companies, Peoples Gas and North Shore. PEC also owns an energy marketing business and an oil and natural gas production company. As explained below, other subsidiaries of PEC own interests in generating assets, which PEC is in the process of divesting in connection with exiting this business segment.[4]

The Peoples Gas Light and Coke Company, an Illinois corporation, is an Illinois public utility providing regulated natural gas service in the City of Chicago. Peoples Gas serves approximately 830,000 customers.

[4] Less substantial subsidiaries of PEC are identified in the materials required by Section 7-204A of the PUA (220 ILCS 5/7-204A(a)(1)), submitted along with this Application.

North Shore Gas Company, an Illinois corporation, is an Illinois public utility providing regulated natural gas service to approximately 155,000 customers in 54 communities in northeastern Illinois.

Peoples Energy Services Corporation ("PESC") is an Illinois corporation engaged in non-regulated energy marketing. PESC furnishes retail energy services to more than 31,000 customers in Illinois, Michigan and Ohio, providing a portfolio of products to manage energy needs of business, institutional and residential consumers. PESC recently obtained authorizations to expand its services into Ohio and New York.

Peoples Energy Production Company ("PEP") is a Delaware corporation engaged in oil and natural gas production. PEP primarily focuses on acquiring proven, onshore reserves with upside potential in a limited number of strategic supply basins, to which value can be added through drilling programs, production enhancements, and reservoir optimization. PEP's acquisition and drilling efforts concentrate primarily on natural gas.

Peoples Energy Resources Company, LLC ("PERC") is a Delaware limited liability company that owns several subsidiaries involved in various wholesale gas businesses, natural gas liquids businesses, and power generation development. However, PERC and its subsidiaries are in the process of disposing of their interests in power generation assets and exiting this business. The generating assets in which PERC and its subsidiaries own interests that remain to be sold are the Elwood facility in Elwood, Illinois, and the proposed COB Energy facility in Klamath County, Oregon; PERC and its subsidiaries are actively pursuing the sale of their remaining interests in these facilities.

B. The Reorganization Transaction

The Reorganization is structured as a reverse triangular merger transaction. Under the Agreement, WPS Resources will acquire the stock of PEC in exchange for WPS Resources stock that WPS Resources will issue to PEC shareholders at the time of Closing. Wedge, a wholly-owned subsidiary of WPS Resources, will be merged with and into PEC, with PEC being the surviving corporation. PEC will thereby become a wholly-owned direct subsidiary of WPS Resources. As a result, Peoples Gas, North Shore and PEC's other subsidiaries will become wholly-owned indirect subsidiaries of WPS Resources.

PEC shareholders will exchange their common shares for a fixed amount of WPS Resources common stock. Under the Agreement, each PEC common share outstanding immediately prior to the Reorganization will be converted into 0.825 shares of WPS Resources' common stock. Based on closing prices on July 5, 2006 (the business day before news of the proposed transaction first became public), this would result in an approximate value of $41.39 per share for PEC stock. This exchange rate would represent a premium to PEC shareholders of approximately 14.2 percent, based on the average closing prices for PEC stock for the twenty (20) day period ending July 5, 2006, and approximately 14.9 percent, based on the closing price for PEC on July 5, 2006. After the Closing, current WPS Resources shareholders will own approximately 57.6 percent of the combined company, and current PEC shareholders will own approximately 42.4 percent.

Additional terms of the Reorganization are set forth in the Agreement, a copy of which is Attachment A to this Application. Mr. Bradley A. Johnson, Vice President and Treasurer of WPS Resources, provides in his direct testimony further detail on the structure of the WPS Resources corporate family following the Closing.

C. Post-Reorganization Structure and Operations

After the Closing, WPS Resources will be the parent corporation of PEC and its subsidiaries, including the Gas Companies. WPS Resources will move its headquarters and principal corporate offices to Chicago, and will adopt a new name that will be chosen pursuant to the procedure set forth in the Agreement.

The Gas Companies will each operate as a separate wholly-owned indirect subsidiary of WPS Resources. Neither of the Gas Companies will be combined with any other WPS Resources entity. Each Gas Company will retain its current name and Chicago area headquarters, will continue to operate as an Illinois public utility in its current service territory, will keep its current rate schedule (except for the tariff changes for which approval is requested in this Application), and will remain subject to Commission jurisdiction and applicable Illinois law and regulations. Likewise, all of WPS Resources' current regulated subsidiaries will maintain their names and headquarters locations, including WPSC in Green Bay. The energy marketing businesses of WPS Resources (ESI) and PEC (PESC and Peoples Energy Wholesale Marketing, LLC) will be combined and headquartered in the Green Bay area, while maintaining an office and a strong local presence in the Chicago area.

The Gas Companies' approximately one million customers will not experience any disruption or other immediate change in their service as a result of the Reorganization. Gas will continue to be delivered as demanded. These customers will call the same numbers for service and billing inquiries and to report any emergencies, and will largely have the same employees serving their needs.

Initially following the Closing, PEC will continue to provide shared corporate services to the Gas Companies, and the Gas Companies will continue to provide services to each other, pursuant to the currently-effective, Commission-approved affiliated interest agreement among those companies. The other currently-effective Commission approved agreements between the Gas Companies or among the Gas Companies, PEC and other PEC subsidiaries will also remain in effect to facilitate continuity of existing operations.[5]

At the same time, the Gas Companies will begin to be integrated into the WPS Resources system. WPS Resources will provide shared corporate services to PEC and the Gas Companies. The Gas Companies will become parties to WPS Resources' affiliated interest agreement governing shared services among WPS Resources, WPSC, and WPS Resources' other regulated subsidiaries – an action for which this Application seeks the Commission's authorization under Sections 7-101 and 7-204A(b) of the PUA. (A copy of this proposed agreement is provided as Attachment B to this Application.) The agreement is sponsored by Ms. Diane L. Ford, WPS Resources' Vice President – Controller and Chief Accounting Officer, in her direct testimony submitted with this Application. Ms. Ford also describes WPS Resources' allocation of shared services and costs among its regulated and non-regulated subsidiaries. Over time, the delivery of shared services will evolve as the combined company determines the optimal structure for providing shared services, which may involve the formation of a service company.

WPS Resources and PEC are committed to a smooth transition following the Closing, so that the integration will be transparent and seamless to customers of the Gas Companies. Mr. Borgard describes the transition process in greater detail in his direct testimony.

[5] Copies of the existing inter-company agreements are provided in the materials required by Section 7-204A of the PUA (220 ILCS 5/7-204A(a)(5)), submitted along with this Application.

D. Benefits of Reorganization

As further detailed in the direct testimony of Mr. Larry L. Weyers, WPS Resources' Chairman, President, and Chief Executive Officer, Mr. James F. Schott, WPSC's Vice President – Regulatory Affairs, and Messrs. Johnson and Borgard, all being submitted with this Application, the Reorganization will benefit, and will not adversely affect, the Gas Companies' customers, their employees, and the Illinois communities they serve.

1. Benefits to Customers

WPS Resources will provide the Gas Companies with a larger and stronger financial platform to support improvements to and maintenance of their respective distribution systems for the benefit of their customers. Moreover, as Mr. Borgard explains, customers will benefit from WPS Resources' plan to bring industry best practices and operational excellence to the combined company's operations.

In addition, the Reorganization is expected to produce significant savings over time. As discussed in Mr. Flaherty's direct testimony, approximately $87 million of potential annual synergy savings allocated to the combined company's regulated subsidiaries will be achieved over time.[6] As Mr. Flaherty explains, it is expected to take five years after Closing to realize this level of savings. As he also explains, the greatest portion of these savings is expected to be realized in administrative and general costs, although some direct cost savings in areas such as gas acquisition and supply are also anticipated. Mr. Flaherty also provides estimates of the non-recurring costs that the combined company will incur in order to achieve these savings. Most of

[6] This is in addition to approximately $7 million in potential annual synergy savings allocated to the combined company's non-regulated subsidiaries that will be achieved over time. These two estimates combine for a total of approximately $94 million in annual net synergy savings expected over time for the combined company as a whole.

these costs will be incurred in the four years after Closing, and are estimated to total approximately $186 million.

The integration of the Gas Companies' administrative, managerial, and overhead functions into the WPS Resources system will permit the Gas Companies and their customers to benefit over time from consolidation and economies of scale associated with the larger and more diverse enterprise being created by the Reorganization. For customers, these cost savings mean that rates will be lower than they otherwise would have been absent the Reorganization.

In their direct testimony being submitted with this Application, Messrs. Weyers and Borgard provide further description of benefits that the Reorganization is expected to yield for the Gas Companies' customers.

2. Benefits to Employees

Consistent with its mutually beneficial relationship with its represented and non-represented employees in Wisconsin, Michigan and Minnesota, as described by Mr. Borgard, WPS Resources will emphasize the importance of strong employee relations at the Gas Companies. The Reorganization will enhance employee opportunities by creating a larger, more diverse organization with employment options over a wider service area. Applicants plan to achieve savings by eliminating redundancies and properly aligning the work force with work load, which they expect to do through normal attrition as much as practicable.

3. Benefits to Communities

Applicants are committed to maintaining and enhancing the service and support to the Gas Companies' service territories and the communities that they serve. Like PEC, WPS Resources has a long and strong tradition of providing such service and support through civic, community, and philanthropic efforts.

This tradition will continue after the Closing. Existing civic and community commitments, as well as philanthropic pledges, will be honored. Future charitable requests will be thoughtfully considered, with the objective of supporting those causes that will most benefit the Gas Companies' customers and their communities. As Mr. Weyers notes in his testimony, WPS Resources recognizes that it is in both its own best interest and that of the communities that the Gas Companies serve that the economic prospects of those communities be enhanced, and that the Companies continue to have a strong local presence.

E. Rate-Related Proposals

In his direct testimony submitted with this Application, Mr. Schott presents WPS Resources' rate-related proposals associated with the Reorganization. If adopted, these proposals will provide significant economic benefits to the Gas Companies' customers in the form of deferred revenue requirement recovery, a fair and reasonable sharing of the synergy savings generated by the Reorganization, and timely and necessary rate adjustments for the Gas Companies. Applicants' proposal on the treatment of costs and savings is described in Section IV.B. of this Application.

1. Rate Plan

Neither Gas Company has had its base rates adjusted since November 1995. As is well known, the Gas Companies were preparing to file for general rate increases before the Reorganization was announced. As a result of the Reorganization, those rate filings have been postponed. However, in light of the Gas Companies' need for rate relief, WPS Resources proposes that they file for general rate increases in early 2007 and have rates established based on an historical test year that would not include any adjustments for synergy savings associated with the Reorganization or the costs to achieve those savings. Based on the normal eleven-month Commission review process, the rates set in that case would not take effect until 2008.

WPS Resources requests that the Commission authorize the Gas Companies to establish regulatory assets to record their allocated shares of costs to achieve synergy savings. After the new rates expected to be effective in early 2008 are established, the Gas Companies will not file for additional general rate increases until 2009 at the earliest.

Under this plan, the Gas Companies' customers will benefit from the synergy savings generated by the Reorganization. In the first three years after Closing, the Gas Companies will use the accumulated synergy savings to partially offset their foregone recovery of revenue deficiencies in 2007 through 2009. Rate adjustments effective after 2009 would reflect all Reorganization-related savings allocable to the Gas Companies in accordance with standard cost allocation methodologies, as well as recovery of the annual amortization of the costs of achieving those savings for which regulatory asset treatment is requested in this Application. As such, in rates which become effective after 2009, all annual net synergy savings allocated to the Gas Companies will be passed on to their customers.

2. Accelerated System Improvements

WPS Resources is willing to accelerate Peoples Gas' existing program to replace cast iron mains and upgrade ancillary equipment in its distribution system in Chicago. WPS Resources intends to approximately double Peoples Gas' rate of investment in this important program, thereby reducing the time it will take to complete the program. These efforts would speed the enhancement of the reliability and efficiency, and the reduction in operation and maintenance costs, of Peoples Gas' natural gas distribution infrastructure over time. Information on this acceleration program and a proposed method of cost recovery will be presented in the rate filing WPS Resources intends will be made by Peoples Gas in early 2007.

3. Finding Related to Purchase Accounting Impacts

The Gas Companies seek, pursuant to Section 7-204(f) of the PUA, a finding by the Commission that any adjustments to the Gas Companies' books for financial reporting purposes resulting from application of purchase or "push down" accounting for the Reorganization will be disregarded for regulatory reporting purposes and for ratemaking purposes in future rate proceedings. The most notable adjustments in this regard relate to the Gas Companies' pension and post-retirement benefits obligations.

As a result of the "fresh start" accounting defined by Statement of Financial Accounting Standards ("SFAS") 87 and 106, the accounting standards that specify the requirements related to accounting for pension and other post-employment benefits costs, Peoples Gas and North Shore will record a net liability related to pension and other post-employment benefit costs of \$56.2 million at June 30, 2006 (\$34.1 million for Peoples Gas and \$22.1 million for North Shore) as a result of the Merger. As of June 30, Peoples Gas and North Shore would have recorded on their books a net asset related to these items of \$88.5 million (\$99.0 million asset for Peoples Gas and \$10.5 million liability for North Shore). The difference of \$144.7 million (\$133.1 million for Peoples Gas and \$11.6 million for North Shore) represents costs experienced by the Gas Companies prior to the Merger, including experience losses, prior service costs, and transition costs, that have been incurred and deferred based on the requirements of SFAS 87 and 106. Based on the requirements of SFAS 87 and 106, these items are deferred and amortized to expense over time. This requested finding is described in further detail by Mr. Johnson in his direct testimony.

4. Finding Related to Tax Treatment of Storage Gas

As noted above, Applicants seek an order from this Commission approving the Reorganization by December 28, 2006, with the objective of closing on or shortly after January 1, 2007. Applicants believe it is important, and therefore respectfully request, that the Commission conduct an expedited review of the Reorganization so that its benefits can commence as soon as possible, and so the uncertainty and employee stress associated with the pending Application can be minimized.

In addition, a Closing more than a few days after January 1, 2007 would expose the Gas Companies and their customers to the risk of higher costs due to the interplay of tax law and the Gas Companies' LIFO accounting for gas in storage inventory. Because the Reorganization will trigger a year-end for tax purposes, PEC will need to file a tax return and the Gas Companies will need to take gas in storage inventories as of the closing date. If the closing date occurs when gas in storage inventories are low (as is increasingly likely from January through March), the cost used to price withdrawals and the cost of gas sold for tax purposes will be the historically lower cost of gas due to the temporary reduction in LIFO inventory. The decrease in the cost of gas sold will result in higher taxable income and therefore a higher tax liability. But because the Reorganization does not cause a year-end for financial accounting purposes, the cost of gas sold for financial reporting purposes will not reflect the recognition for tax purposes of the temporary reduction in LIFO inventory. The resulting book-to-tax difference in cost of gas sold will result in the recognition of a deferred tax asset that decreases the accumulated provision for deferred income taxes and increases rate base, and therefore rates in future rate proceedings. While the book-to-tax difference is not permanent, it will exist as long as there is no significant year-to-year draw down of inventory, something that is not expected to occur in the foreseeable future.

The most direct way to mitigate this risk would be for the Reorganization to close on or shortly after January 1, 2007, so that the decrease in storage gas inventory at tax year-end is minimized. Alternatively, the Gas Companies may be able to mitigate the higher tax liability by purchasing replacement inventory so that it is on hand at the tax year-end. This, however, could expose the Gas Companies to the risk of higher gas commodity costs.

For these reasons, if the Reorganization does not close on or shortly after January 1, 2007 and the Gas Companies are not able to mitigate the higher tax liability, the Gas Companies request the Commission to find pursuant to Section 7-204(f) of the PUA that they may reflect in future rate proceedings the revenue requirement impacts of increased rate base caused by the recognition for tax purposes of a temporary reduction in LIFO gas in storage inventory as of the closing date. This issue is discussed in further detail by Mr. Schott in his direct testimony.

IV. COMPLIANCE WITH STATUTORY REQUIREMENTS

A. Reorganization under Section 7-204

The Reorganization fits within the definition of "reorganization" in Section 7-204 of the PUA, as it involves a "transaction which … results in a change in … the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility…." 220 ILCS 5/7-204(a).

In order to approve a Section 7-204 reorganization, the Commission is required to make a series of findings, each of which is addressed below.

1. Finding 1: "the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service"

As discussed above and in the direct testimony of Messrs. Weyers, Johnson, and Borgard, WPS Resources has a strong record of maintaining the financial strength of its regulated subsidiaries, and operating them reliably, efficiently, and safely. Under WPS Resources' ownership, the Gas Companies will provide adequate, reliable, efficient, safe, and least-cost public utility service. Further enhancement is expected from the combined company's operational efficiencies and economies of scale. WPS Resources' commitment to industry best practices and operational excellence will help ensure that a high quality of service is provided to the Gas Companies' customers.

These initiatives, in turn, will enhance customer satisfaction. WPS Resources has a long history of being highly rated by customers, as Mr. Borgard discusses. WPS Resources intends that the same high level of service be delivered to the Gas Companies' customers.

Accordingly, the Commission should make this first finding.

2. Finding 2: "the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers"

As discussed in Ms. Ford's direct testimony, WPS Resources has in place appropriate contractual requirements, allocation standards, and compliance processes to ensure that its non-utility activities, including the activities of its non-regulated subsidiaries, will not be subsidized by either the Gas Companies or their customers. Nor will the operations of one regulated subsidiary be subsidized by another. These measures keep corporate costs and inter-company transfers properly allocated. WPS Resources has successfully used similar measures to maintain proper cost allocation and accounting among its subsidiaries, and to avoid cross-subsidization among them.

In light of the foregoing, the Commission should conclude that the Reorganization will not cause unjustified subsidization of non-utility activities by the Gas Companies or their customers.

3. Finding 3: "costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes"

As noted above, Ms. Ford describes WPS Resources' systems for ensuring a fair and accurate allocation of costs and facilities between utility and non-utility activities within and among its subsidiaries. The Gas Companies will be incorporated into these systems, while at the same time continuing to adhere to the Commission's Uniform System of Accounts for Gas Utilities. As Ms. Ford explains, the Commission will have sufficient information to determine the costs and facilities that are properly included by the Gas Companies for ratemaking purposes. As a result, the Commission should make this third finding.

4. Finding 4: "the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure"

As discussed in Mr. Johnson's testimony, the Reorganization will not impair the Gas Companies' ability to raise capital on reasonable terms or to maintain a reasonable capital structure. Given WPS Resources' strong financial condition, the Gas Companies will continue to have access to both long-term and short-term capital markets at reasonable cost. In fact, as Mr. Johnson explains, that access will be enhanced with WPS Resources' larger, more diverse, more financially secure platform. For similar reasons, the Reorganization will strengthen the Gas Companies' ability to maintain a reasonable capital structure. WPS Resources expects the Gas Companies' current credit ratings to be enhanced as the result of WPS Resources' relative financial strength. As Mr. Johnson notes, initial rating agency reaction to the Merger suggests such potential upgrades. Accordingly, the Commission should make the fourth finding.

5. Finding 5: "the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities"

The Gas Companies will each remain Illinois public utilities following the Reorganization. As a result, they will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois public utilities. The Commission can make this fifth finding.

6. Finding 6: "the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction"

The Reorganization will not have a significant adverse effect on competition in the markets over which the Commission has jurisdiction. WPS Resources is not planning to acquire any electric generation facilities from PEC as part of the Reorganization. PEC's only remaining interest in any existing generating facilities is a 50% interest held by subsidiaries in Elwood Energy LLC, which owns a 1,400 MW peaking facility near Chicago. PERC is actively engaged in negotiations to sell its interest in Elwood Energy LLC. After PERC completes the sale of its interests in the Elwood facility, PEC and its subsidiaries will no longer own any electric generating facilities.[7]

In addition, the Merger should have no significant adverse impact on the competitive retail gas markets in Illinois. Pursuant to the Act and the Gas Companies' tariffs, their retail gas customers may purchase their gas supply from suppliers other than the Gas Companies and have the third-party gas supplies delivered to them over the Gas Companies' gas distribution systems. WPS Resources cannot exclude alternative retail gas suppliers or competitive suppliers of gas

[7] PERC also owns, through subsidiaries, interests in a proposed generating facility project in Klamath County, Oregon. PERC is also actively engaged in attempting to sell its interests in this facility.

from the Gas Companies' gas systems. Moreover, federal and state laws and regulations, as well as Gas Companies' tariffs, generally prohibit them from discriminating against non-affiliates.

Therefore, as Mr. Schott describes in his testimony, the only potential effect of the Reorganization on the retail electric and natural gas markets in Illinois would be that resulting from the combination of WPS Resources' and PEC's non-regulated energy marketing subsidiaries. As Mr. Schott explains, there will not be a significant adverse effect on competition from combining these subsidiaries, either.

Concurrent with this Application, WPS Resources and PEC are seeking approval of the Reorganization from the Federal Energy Regulatory Commission ("FERC"), as well as Hart-Scott-Rodino clearance from the Department of Justice and the Federal Trade Commission. These governmental entities will be analyzing the Merger for, among other things, competitive issues falling outside the Commission's jurisdiction.

For these reasons, the Reorganization will not adversely affect competition in markets over which the Commission has jurisdiction. In fact, it might promote competition in the retail electric and natural gas markets in Illinois, both within the areas served by the Gas Companies and elsewhere in Illinois, by creating a more powerful and capable unregulated competitor in the retail electric and gas supply markets. The Commission, therefore, should make this sixth finding.

7. Finding 7: "the proposed reorganization is not likely to result in any adverse rate impacts on retail customers"

The Reorganization should not cause any adverse rate impacts on retail customers, as it will not result in any changes to the Gas Companies' existing charges to customers. Under WPS Resources' proposed rate plan, the Gas Companies will file in early 2007 requests for general rate increases to become effective in early 2008. These rate increases will be based on an historical test year with no adjustments for synergy savings or costs to achieve. The postponement of these rate filings from 2006 to 2007 represents an immediate benefit to customers that is generated by the Reorganization. The rate increases sought in early 2007 will be necessary in order for the Gas Companies to recover their reasonable costs of providing safe, adequate and reliable gas supply to their retail customers in Illinois.

Under WPS Resources' proposed rate plan, the Gas Companies would not file for any additional general rate increases until 2009 at the earliest. Until then, the Gas Companies will use the accumulated synergy savings to offset their foregone revenue deficiency recovery; namely, their unrecovered deficiencies in 2007 and unrecovered inflation during 2008 and 2009. All of the savings resulting from the Reorganization allocated to the Gas Companies will be reflected in rates effective after 2009.

WPS Resources expects the change in control over the Gas Companies and their incorporation into the WPS Resources system, with the resulting synergies and cost of service savings, to reduce the Gas Companies' overall cost of service below what it otherwise would be absent the Reorganization. Accordingly, the Commission can find that the proposed Reorganization is not likely to result in any adverse rate impacts on retail customers.

B. Treatment of Costs and Savings under Section 7-204

Under Section 7-204(c), the Commission must rule on "(i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated."

In order to undertake the Reorganization, WPS Resources is making a significant investment and incurring substantial expenses. In addition to the stock exchange premium paid to PEC shareholders, the estimated total cost to WPS Resources (and ultimately the combined company) of accomplishing the Reorganization and achieving synergies and cost savings is approximately $186 million. Of this amount, about $178 million is allocable between the combined company's regulated and non-regulated subsidiaries. WPS Resources does not seek recovery from the Gas Companies' customers of change-in-control and transaction costs, which total an estimated $36 million. Of the remaining $142 million of costs to achieve synergies and cost savings, about $47 million will be allocated to the Gas Companies. Messrs. Flaherty and Schott discuss the calculation and allocation of these "synergy costs" in their direct testimony. WPS Resources requests the Commission to authorize the Gas Companies to create regulatory assets to record their allocated shares of synergy costs as they are actually incurred.

Applicants estimate that the Reorganization will be producing synergy cost savings of approximately $177 million across the combined company's regulated businesses through 2011. Mr. Flaherty presents and describes the synergy cost savings estimates in his direct testimony. As he shows, using standard allocation methods, approximately $77 million of these savings would be allocable to the Gas Companies over the five years after Closing. The allocated savings will have the effect of reducing the Gas Companies' costs, revenue requirements and rates.

WPS Resources' rate plan for the Gas Companies will allow them to use synergy cost savings in the first three years after Closing to partially offset deferred rate increases embodied in the rate plan. The Gas Companies' customers will directly benefit from the synergy cost savings in rates that become effective after 2009.

As Ms. Ford discusses in her direct testimony, WPS Resources continues to evaluate the specific methodology to be used for the allocation of synergy savings and costs among the combined company's subsidiaries, and will provide additional information as it completes its evaluation.

C. Approval under Section 7-102

Section 7-102 of the PUA requires Commission approval whenever a "public utility may by any means, direct or indirect, merge or consolidate its franchises, licenses, permits, plants, equipment, business or other property with that of any other public utility." 220 ILCS 5/7-102(A)(d). The same section also requires Commission approval for a public utility to "assign, transfer, lease, mortgage, sell (by option or otherwise), or otherwise dispose of or encumber the whole or any part of its franchises, licenses, permits, plant, equipment, business, or other property…." 220 ILCS 5/7-102(A)(c). However, Section 7-204(e) of the Act expressly provides that "[n]o other Commission approvals shall be required for mergers that are subject to this Section." 220 ILCS 5/7-204(e).

Applicants do not believe that either of the above-referenced provisions of Section 7-102 applies to the Reorganization, which does not involve a direct or indirect merger or consolidation of two utilities' businesses or property. Nor is it a sale or other disposition of a utility's businesses or property. Rather, the Reorganization is a change in control transaction over which the Commission clearly has jurisdiction under Sections 7-204 and 7-204A of the PUA.

Nevertheless, if the Commission determines that the Reorganization is also subject to the requirements of Section 7-102, the information submitted in support of this Application is sufficient to meet the requirements of that Section, so that any approval deemed necessary pursuant to Section 7-102 should be granted.

D. <u>Affiliated Interest Agreement under Sections 7-101 and 7-204A(b)</u>

Applicants propose that the Gas Companies enter into an affiliated interest agreement with WPS Resources and its existing regulated subsidiaries, for which approval is required under Sections 7-101 and 7-204A of the PUA.

As described by Ms. Ford in her direct testimony, WPS Resources, WPSC, and WPS Resources' other regulated subsidiaries are parties to an affiliated interest agreement, dated March 31, 2006, which has been approved as in the public interest by the Public Service Commission of Wisconsin ("PSCW").[8] That agreement is designed to permit the parties to plan and operate their businesses through integration of certain activities to maximize possible economies of scale by sharing, among other things, services, employees, properties, rights, and interests. Under this affiliated interest agreement, WPSC provides the majority of shared services to WPS Resources and its regulated subsidiaries. WPSC provides these services at its cost, including a reasonable allocation of its overheads. Other regulated subsidiaries can provide services to each other under this agreement, again at cost. Applicants seek Commission authorization for the Gas Companies to enter into this agreement, so that they also can maximize possible economies of scale and other benefits by receiving shared services from WPS Resources and WPSC. (A copy of this agreement, modified to include the Gas Companies, is provided as Attachment B to this Application.)[9]

Additionally, Applicants intend to keep in effect, at least for the near term, the existing inter-company agreements between and among PEC, Peoples Gas, North Shore and certain other

[8] Final Decision, PSCW Docket No. 6690-AU-110 (March 23, 2006).

[9] WPS Resources also has a PSCW-approved affiliated interest agreement between it, WPSC and WPS Resources' non-regulated subsidiaries. Order, PSCW Docket 6690-AU-103 (May 21, 1997). PEC and its non-

PEC subsidiaries. Each of these agreements has previously been approved by the Commission. Maintaining these agreements in effect following the Closing is necessary to ensure continuity of operations. The existing Commission-approved inter-company agreements to remain in effect are:

1. Personal Property Transfer Agreement among PEC, Peoples Gas and North Shore (approved in ICC Docket No. 60270).

2. Inter-company Borrowing Arrangement between Peoples Gas and North Shore (approved in ICC Docket No. 04-0602).

3. Inter-company Borrowing Arrangement among PEC, Peoples Gas and North Shore (approved in ICC Docket No. 04-0603).

4. Firm Transportation Service Contract between Peoples Gas and Peoples Energy Resources Corp. (approved in ICC Docket No. 96-0452).

5. Firm Peaking Gas Supply and Services Agreement between Peoples Energy Resources Corp. and Peoples Gas (approved in ICC Docket No. 96-0452).

6. Inter-company Services Agreement among PEC, Peoples Gas, North Shore and Peoples Development, Inc. (approved in ICC Docket No. 55071).

7. Storage Service Agreement among Peoples Gas and North Shore (approved in ICC Docket No. 57988).

(Copies of the foregoing agreements are provided in the materials required by Section 7-204A of the PUA (220 ILCS 5/7-204A(a)(5)), submitted along with this Application.)

As Mr. Weyers and Ms. Ford describe in their testimony, over the longer term following the Closing, WPS Resources will comprehensively review the overall organizational structure including, among other things, whether a centralized "service company" should be formed to provide all (or the bulk of) shared services to all companies in the WPS Resources corporate

regulated subsidiaries will enter into this agreement as part of the Reorganization. These amendments must be approved by the PSCW but not by this Commission.

organization. Changes to and consolidation of existing inter-company agreements will also be evaluated. All revisions to or replacements for existing inter-company agreements to which the Gas Companies are parties will be filed with the Commission for approval in accordance with Section 7-101 of the PUA.

E. Approval of Accounting Entries

Applicants seek Commission approval of the proposed accounting entries associated with the Reorganization, including those related to the amortization of a portion of Applicants' transaction costs. The proposed entries are provided as Attachment C to this Application, and are sponsored by Ms. Ford in her direct testimony.

F. Approval to Change Reconciliation Years

Applicants request the Commission's authorization, pursuant to Sections 9-201 and 9-220 of the PUA and 83 Illinois Administrative Code Part 525, to change the reconciliation years in the Gas Companies' Gas Charge tariff (Rider 2) and Environmental Activities tariff (Rider 11) from the 12 months ending September 30 to the 12 months ending December 31, in order to match the fiscal years used by WPS Resources and all of its subsidiaries.[10] As Ms. Valerie Grace, Manager of Rates for Peoples Gas, explains in her testimony submitted with this Application, the Gas Companies' Gas Charge and Environmental Activities tariffs currently provide for annual reconciliations for the 12 months ending September 30. The Gas Companies seek Commission approval in this Application for revisions to these tariffs, effective upon Closing, to provide for annual reconciliation proceedings using the 12 months ending December 31. The proposed revised tariff sheets are provided in Exhibits VG-1.1 through VG-1.4 to Ms.

[10] PEC and the Gas Companies will be changing their fiscal years for financial reporting purposes to a calendar year basis.

Grace's testimony. Given the advantage of having consistent fiscal years for all the companies in the post-Reorganization corporate structure, the proposed changes in the Gas Companies' Gas Charge and Environmental Activities tariffs are reasonable and should be approved. The Gas Companies will provide appropriate public notice of these proposed tariff changes in accordance with 83 Ill. Admin. Code Part 255, as set forth in Exhibit VG-1.5 sponsored by Ms. Grace.

G. Certain Other Approvals

Applicants seek Commission authorization for taking such other measures in connection with the Reorganization as may be reasonably necessary for effecting the Reorganization.

V. REQUEST FOR EXPEDITED APPROVAL

Applicants seek expedited approval of this Application so that the anticipated benefits of the Reorganization can begin to be realized as soon as practicable. The Reorganization is important to the Gas Companies' customers, management, and employees. Applicants seek to minimize the uncertainty associated with the pendency of the requested approvals, and wish to close the transaction as soon as practicable. In addition, as discussed above, Applicants seek to avoid potentially adverse tax treatment related to gas in storage that could occur if the Closing occurs much after January 1, 2007.

Accordingly, Applicants respectfully request an approval order from the Commission no later than December 28, 2006. An approval order by that date would allow the Closing to occur on or shortly after January 1, 2007, pursuant to the terms of the Agreement, assuming that all other conditions are satisfied.

This request for expedited approval allows approximately five months from the date of filing of this Application for the Commission to process this case, which should provide sufficient time for interested parties to evaluate the Reorganization and to examine any issues related to it, and for the Commission to issue an approval order.

Applicants expect that an order issued by the requested date would be consistent with the expected receipt of additional approvals being sought from other governmental entities with jurisdiction over the Reorganization and/or related transactions, including the FERC, the Federal Communications Commission, and the PSCW. Issuance of an order by this Commission by December 28, 2006 is also anticipated to be consistent with the expiration or early termination of the review period under the Hart-Scott-Rodino Act, as well as receipt of approvals by Applicants' respective shareholders.

To facilitate the Commission's expedited processing of this Application, Applicants are submitting supporting direct testimony and exhibits along with the Application.[11]

VI. SUBMISSION OF REQUIRED INFORMATION AND DIRECT TESTIMONY

Along with this Application, Applicants supply the documents and information required by Section 7-204A of the PUA. 220 ILCS 5/7-204A. In addition, Applicants are submitting the direct testimony and other exhibits of the following witnesses:

Larry L. Weyers (Applicants' Ex. LLW-1.0), Chairman, President, and Chief Executive Officer, WPS Resources, provides an overview of WPS Resources and its rationale for entering into the Agreement and seeking to consummate the Reorganization, an overview of the Reorganization itself including its many expected benefits for the Gas Companies' customers, and a brief description of the plans for facilitating the transition under the Reorganization.

[11] Applicants agree to accept service by electronic means, as provided for in Section 200.1050 of the Commission's Rules of Practice. 83 Ill. Admin. Code § 200.1050.

Lawrence T. Borgard (Applicants' Ex. LTB-1.0), President and Chief Operating Officer – Energy Delivery, WPSC, describes in detail the corporate philosophy underlying the management and operation of the various WPS Resources regulated utility subsidiaries as well as the record of reasonable rates, customer service, safety and corporate culture that WPS Resources intends to bring to the benefit of the Gas Companies, their customers and their employees. Mr. Borgard also explains that the Reorganization will not diminish the Gas Companies' ability to provide adequate, reliable, efficient, safe, and cost-effective service. In addition, Mr. Borgard describes the Applicants' approach toward the transition phase of the Merger, including WPS Resources' work force approach and how it will be applied to post-closing Gas Company operations.

Bradley A. Johnson (Applicants' Ex. BAJ-1.0), Vice President and Treasurer, WPS Resources, provides background on Applicants and their affiliates, and describes the Reorganization, including its parties, transaction, structure, capitalization, and post-Closing operations. Mr. Johnson also demonstrates that the Reorganization will not impair the Gas Companies' capacity to raise capital on reasonable terms or to maintain a reasonable capital structure. In addition, Mr. Johnson discusses WPS Resources' request that the Commission authorize the Gas Companies to disregard for regulatory reporting and ratemaking purposes certain adjustments to their financial statement recording the impacts of "push down" accounting and goodwill resulting from the Reorganization.

Thomas J. Flaherty (Applicants' Ex. TJF-1.0), Senior Vice President, Booz Allen Hamilton Inc., presents analysis of the expected synergies and resultant cost savings from the Reorganization, the costs of the Reorganization, and the allocation of the costs and cost savings to the Gas Companies.

James F. Schott (Applicants' Ex. JFS-1.0), Vice President – Regulatory Affairs, WPSC, presents WPS Resources' rate plan for the Gas Companies for the three years after the Reorganization closes. He also discusses WPS Resources' willingness to accelerate Peoples Gas' program to replace cast iron mains and upgrade ancillary facilities in its distribution system in Chicago. Mr. Schott also describes WPS Resources' request that the Commission authorize the Gas Companies to establish regulatory assets for their allocated share of the costs to achieve the synergy cost savings generated by the Reorganization, to amortize the regulatory assets over four years beginning in 2010 and to recover the annual amortized amounts in rates based on any test year between January 1, 2010 and December 31, 2013. Mr. Schott also supports Applicants' request for the Commission's expedited review of the Reorganization. Finally, Mr. Schott shows that the Reorganization is not likely to have a significant adverse impact on energy markets regulated by the Commission.

Diane L. Ford (Applicants' Ex. DLF-1.0), Vice President – Controller and Chief Accounting Officer, WPS Resources, demonstrates that the Reorganization will not cause the Gas Companies or their customers to subsidize non-utility activities. Ms. Ford also shows that WPS Resources' accounting and cost allocation guidelines, procedures and inter-company agreements will result in fair and reasonable cost and facility allocations between the Gas Companies and non-utility subsidiaries. Ms. Ford further addresses affiliated interest issues, including the inclusion of the Gas Companies in WPS Resources' current affiliated interest agreement. In addition, Ms. Ford presents the proposed accounting entries for the Reorganization.

Valerie Grace (Applicants' Ex. VG-1.0), Manager of Rates, Peoples Gas, discusses changes to the Gas Companies' Gas Charge and Environmental Activities tariff riders (Riders 2 and 11) that are needed to convert the Companies' reconciliation periods under these Riders from the 12 months ending September 30 to the 12 months ending December 31, to be consistent with the calendar year fiscal years that the Gas Companies will adopt as a result of the Reorganization.

Douglas M. Ruschau (Applicants' Ex. DMR-1.0), Vice President Finance and Treasurer, Peoples Gas and North Shore, presents the Gas Companies' five-year capital expenditure budgets and projected capital structures, along with supporting assumptions, as projected prior to the Reorganization.

WHEREFORE, for all of the reasons discussed herein, Applicants respectfully request that the Commission issue an order approving the Reorganization and granting all such other relief as requested.

Respectfully submitted,

WPS RESOURCES CORPORATION

By: ______________________
One of its attorneys

Paul F. Hanzlik
Bruce W. Doughty
Cynthia A. Fonner
FOLEY & LARDNER LLP
321 North Clark Street, Suite 2800
Chicago, Illinois 60610-4764
(312) 832-4500
(312) 832-4700 (facsimile)
phanzlik@foley.com
bdoughty@foley.com
cfonner@foley.com

Allen W. Williams, Jr.
Bradley D. Jackson
David A. Meisinger
FOLEY & LARDNER LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400
(414) 297-4900 (facsimile)
awilliams@foley.com
bjackson@foley.com
dmeisinger@foley.com

PEOPLES ENERGY CORPORATION
THE PEOPLES GAS LIGHT AND COKE COMPANY
NORTH SHORE GAS COMPANY

By: ______________________
One of its attorneys

Theodore R. Tetzlaff
Gerard T. Fox
Mary Klyasheff
PEOPLES ENERGY CORPORATION
Office of General Counsel
130 East Randolph Street
Chicago, Illinois 60601
(312) 240-4800
(312) 240-4099 (facsimile)
t.tetzlaff@pecorp.com
g.fox@pecorp.com
m.klyasheff@pecorp.com

Allan Horwich
Owen E. MacBride
Samantha C. Norris
6600 Sears Tower
Chicago, Illinois 60606
(312) 258-5500
(312) 258-5600 (facsimile)
ahorwich@schiffhardin.com
omacbride@schiffhardin.com
snorris@schiffhardin.com

STATE OF WISCONSIN)
) ss.
COUNTY OF BROWN)

VERIFICATION

Bradley A. Johnson, being first duly sworn, states that he is Vice President and Treasurer of WPS Resources Corporation, that he is authorized to make this verification, that he has read the foregoing Application, that he is familiar with the facts asserted therein, and that the facts asserted therein are true and correct to the best of his knowledge.

Bradley A. Johnson

Bradley A. Johnson

SUBSCRIBED and SWORN to before me
This 2nd day of August 2006

Colleen T. Sipiorski

Notary Public, State of Wisconsin
My Commission Expires: May 31, 2009

COLLEEN T. SIPIORSKI
NOTARY
PUBLIC
STATE OF WISCONSIN

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

VERIFICATION

Katherine A. Donofrio, being first duly sworn, states that she is Senior Vice President of Peoples Energy Corporation, The Peoples Gas Light and Coke Company, and North Shore Gas Company, that she is authorized to make this verification, that she has read the foregoing Application, that she is familiar with the facts asserted therein, and that the facts asserted therein are true and correct to the best of her knowledge.

Katherine A. Donofrio

Katherine A. Donofrio

SUBSCRIBED and SWORN to before me
This 2nd day of August 2006.

Barbara Edwards

Notary Public

OFFICIAL SEAL
BARBARA EDWARDS
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 11-22-2006