

DIRECT TESTIMONY
OF
SHEENA KIGHT

FINANCE DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

APPLICATION FOR AUTHORITY TO ENGAGE IN A REORGANIZATION AND TO
ENTER INTO VARIOUS AGREEMENTS IN CONNECTION THEREWITH

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

DOCKET NO. 06-0540

October 31, 2006

1 **1. Q. Please state your name and business address.**

2 **A.** My name is Sheena Kight. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4 **2. Q. By whom are you employed and in what capacity?**

5 **A.** I am employed by the Illinois Commerce Commission (“Commission”) as a
6 Senior Financial Analyst in the Finance Department of the Financial
7 Analysis Division.

8 **3. Q. Please describe your qualifications and background.**

9 **A.** In May of 1998, I received a Bachelor of Business degree in Finance and
10 Marketing from Western Illinois University in Macomb, Illinois. I earned a
11 Master of Business Administration degree, with a concentration in
12 Finance, also at Western Illinois University in May 2001. I have been
13 employed by the Commission in my present position since January of
14 2001. I was promoted to Senior Financial Analyst on October 1, 2004.

15 **4. Q. What is the purpose of your testimony in this proceeding?**

16 **A.** I will present my evaluation of the reorganization proposed by The
17 Peoples Gas Light and Coke Company (“Peoples Gas”), North Shore Gas
18 Company (“North Shore Gas”), Peoples Energy Corporation (“PEC”), and
19 WPS Resources Corporation (“WPS”) (collectively the “Applicants”) under
20 Sections 7-204(b)(4) and 6-103 of the Public Utilities Act (“Act”). Section
21 7-204(b)(4) of the Act pertains to the proposed reorganization’s financial

22 implications on Peoples Gas and North Shore Gas' (collectively "the Gas
23 Companies") ability to access the capital markets on reasonable terms
24 and maintain reasonable capital structures. Section 6-103 of the Act
25 pertains to the amount of the Gas Companies' capitalizations following the
26 reorganization.

27 **5. Q. Please describe the proposed reorganization.**

28 **A.** The Gas Companies are wholly owned subsidiaries of PEC. Wedge
29 Acquisition Corp. ("Wedge") is a wholly owned subsidiary of WPS. The
30 proposed reorganization consists of two parts. First, WPS will acquire all
31 PEC stock through an exchange for WPS stock.¹ Second, PEC and
32 Wedge will merge with PEC being the surviving company. Thus, as a
33 result of the two-part reorganization, PEC will be a wholly-owned
34 subsidiary of WPS.²

35 **6. Q. Please summarize your findings and recommendations.**

36 **A.** In my judgment, the proposed reorganization satisfies the requirements of
37 Sections 7-204(b)(4) and 6-103 of the Act.

38 **7. Q. How do the Gas Companies currently obtain necessary capital?**

39 **A.** The Gas Companies are wholly owned subsidiaries of PEC, therefore,
40 they obtain equity capital through PEC. The Gas Companies raise

¹ Application, p. 2.

² Application, pp. 2-3.

41 required long-term debt directly from the financial markets. In addition,
42 Peoples Gas has the ability to raise short-term debt for itself and also
43 provides short-term debt to North Shore Gas.³

44 **8. Q. Do PEC and the Gas Companies currently have access to the capital**
45 **markets on reasonable terms?**

46 **A.** Yes. Standard & Poor's ("S&P") categorizes debt securities on the basis of
47 the risk that a company will default on its interest or principal payment
48 obligations. The resulting credit rating reflects both the operating and
49 financial risks of a utility.⁴ S&P rates PEC, Peoples Gas and North Shore
50 Gas "A-."⁵ According to S&P, an A-rated utility has a strong capacity to
51 meet its financial obligations.⁶

52 **9. Q. Will the proposed reorganization significantly impair the Gas**
53 **Companies access to the capital markets?**

54 **A.** No. Following the proposed reorganization, the Gas Companies will obtain
55 equity capital through WPS.⁷ The Gas Companies will continue to access
56 long-term debt and Peoples Gas will continue to raise short-term debt for
57 itself and on behalf of North Shore Gas.⁸ In the near term, this could
58 potentially increase the Gas Companies access to the capital markets,
59 since S&P has given WPS an "A" issuer credit rating,⁹ which is higher than

³ Applicants' supplemental response to Staff data request SK 1-01.

⁴ Standard & Poor's Utilities Rating Service, "Utilities Rating Criteria," May 20, 1996, p. 1.

⁵ Standard & Poor's Ratings Direct, "Research Update: WPS Resources Ratings Put On Watch Neg After Merger Announcement; Peoples Ratings Affirmed," July 10, 2006.

⁶ Standard & Poor's, "Ratings Definitions", December 21, 2001, pp. 1-2.

⁷ Applicants' supplemental response to Staff data requests SK 1-02 and response to SK 1-03.

⁸ Applicants' supplemental response to Staff data request SK 1-02.

⁹ Standard & Poor's Ratings Direct, "Research Update: WPS Resources Ratings Put On Watch Neg After Merger Announcement; Peoples Ratings Affirmed," July 10, 2006.

60 the "A-" issuer credit ratings of PEC and the Gas Companies. Thus, in my
61 opinion, based on the facts and analysis set forth above, the proposed
62 reorganization would not significantly impair the Gas Companies' access
63 to the capital markets or to maintain reasonable capital structures.

64 **10. Q. Why is it necessary to review the capitalization of a public utility**
65 **following reorganization?**

66 **A.** Section 6-103 of the Act states in part that:

67 [i]n any reorganization of a public utility, resulting from a forced sale, or in
68 any other manner, the amount of capitalization, including therein all stocks
69 and stock certificates and bonds, notes and other evidences of
70 indebtedness, shall be such as is authorized by the Commission, which in
71 making its determination, shall not exceed the fair value of the property
72 involved.¹⁰

73 **11. Q. In your judgment, does the proposed reorganization satisfy this**
74 **requirement of Section 6-103 of the Act?**

75 **A.** Yes. The capitalization will not exceed the fair value of the property
76 involved in this reorganization.¹¹ Thus, the proposed reorganization
77 satisfies this requirement of Section 6-103 of the Act.

78 **12. Q. Does this conclude your prepared direct testimony?**

79 **A.** Yes.

¹⁰ 220 ILCS 5/6-103.

¹¹ Applicants' Ex. BAJ-1.0, p. 9.