

ICC DOCKET 06-0540

JOINT PARTIES' EXHIBIT NO. 1

OFFICIAL FILE

I.C.C. DOCKET NO. 11-0046
AG Cross Exhibit No. 3
Witness O'Connor
Date 7/19/11 Reporter TO

MEMORANDUM OF AGREEMENT

Dated January 5, 2007

I. Introduction, Parties and Purpose of Agreement

This Memorandum of Agreement (the "Agreement") is entered into on January 5, 2007. The parties to the Agreement (collectively, the "Parties") are WPS Resources Corporation, Peoples Energy Corporation, the Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (collectively "Applicants"; Peoples Gas and North Shore are sometimes referred to herein as the "Gas Companies") and the following participants to ICC Docket 06-0540: the City of Chicago, the Cook County State's Attorney's Office, the Citizens Utility Board, the People of the State of Illinois, by Lisa Madigan, Attorney General of the State of Illinois; the Environmental Law and Policy Center, the Utility Workers Union of America, AFL-CIO, and UWUA Local Union No. 18007 ("UWUA Local 18007") (collectively "Intervenors"). The Staff of the Illinois Commerce Commission ("Staff") is not a Party to the Agreement, but has executed the Agreement pursuant to Section III of the Agreement for the sole purpose of confirming that Staff does not and will not oppose the resolution of the contested issues in ICC Docket 06-0540 as set forth in Section II of this Agreement.

Applicants have filed with the Illinois Commerce Commission ("Commission" or "ICC") an "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", which has been docketed by the Commission as ICC Docket 06-0540. The Intervenors and Staff are active participants in ICC Docket 06-0540.

In exchange for the Applicants' commitments described in Section II of this Agreement, Intervenors agree to settle and resolve the issues they have raised concerning the proposed merger described in ICC Docket 06-0540. Therefore, the Parties, having negotiated in good faith, desire to compromise and settle the remaining issues among them in ICC Docket 06-0540 on the terms set forth in Section II of this Agreement. Staff's participation in this Agreement is addressed in Section III of this Agreement.

II. Agreement on Resolution of Issues in ICC Docket 06-0540

The points listed in this Section II will constitute complete resolution of all contested issues in ICC Docket 06-0540 among Applicants, the Intervenors and Staff.

LIFO-Gas Storage Deferred Tax Impact

- To the extent the closing of the reorganization, which is the subject of ICC Docket 06-0540, is delayed after January 1, 2007, Applicants will not include 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, but will take actions to mitigate the tax impact of the LIFO issue.

Such actions will not affect the gas supply plan of the utilities and will have no impact on customers' rates.

Inclusion of Synergy Savings and Costs to Achieve in Customer Rates

1. In the rate cases to be filed by Peoples Gas and North Shore Gas in 2007, the companies will use historical test years ended September 30, 2006, with adjustments for "known and measurable changes" through September 30, 2007. There will be adjustments for "known and measurable changes" for merger-related synergy savings of \$11,445,400 for Peoples Gas and \$1,633,000 for North Shore. (The foregoing does not include gas cost savings, if any, which would flow through the Peoples Gas and North Shore Purchased Gas Adjustment clauses.)
2. Peoples Gas' and North Shore's recovery of merger-related costs to achieve will be limited to the percentage allocations of the total costs to achieve specified in Appendix A to the Cost-to-Achieve Allocation Agreement and the total amount of the cost recovery will be capped at \$44,922,750. Additionally, the individual categories of merger-related costs to achieve will be placed into the following three groups with the total amount of cost recovery in each group capped as follows:
 - i. Separation Costs, Retention Costs and Relocation Costs: \$9,699,000.
 - ii. System Integration Costs: \$28,038,000.
 - iii. D&O Liability Tail Coverage, Regulatory Process, Facilities Integration, Internal/External Communication Costs and Integration Costs: \$7,185,750.

Other than the cap of \$28,038,000 on System Integration Costs, there will be no caps or pre-determined disallowances in the individual categories of merger-related costs to achieve in each of the groups identified in (i) and (iii) above.

The Commission's order in this ICC Docket 06-0540 will provide that the determinations that Regulatory Process Costs and Internal and External Communications Costs are eligible for recovery from ratepayers was based upon the unique circumstances of this case, including the resolution of contested issues regarding recovery of costs to achieve, and shall have no precedential effect in future merger cases.

3. The amortization period for the regulatory asset for Peoples Gas' and North Shore's allocated shares of merger-related costs will be five years, commencing on the date rates go into effect incorporating the amortization of specific costs. Therefore, the 5-year amortization of the total of \$35,116,750 of merger-related costs to be included in the 2007 rate case orders (see point 4 below) will commence on the date rates go into effect pursuant to the 2007 rate case orders. The balance of merger-related costs incurred (not to exceed \$9,806,000 per point 2 above) will be amortized over 5 years beginning on

January 1, 2010 or the month following expenditure, whichever is later, using a five-year amortization period.

4. The 2007 rate case orders will provide for the amortization of the following amounts of merger-related costs over five years commencing on the effective date of the rates approved by the 2007 rate case orders: \$30,948,040 for Peoples Gas (resulting in an annual amortization of \$6,189,608) and \$4,168,710 for North Shore (resulting in an annual amortization of \$833,742). Peoples Gas and North Shore will provide evidence in their direct case filings to show the amounts of these merger-related costs in each category of costs and the allocations to each utility, summing to the \$30,948,040 and \$4,168,710 amounts. It is recognized that the full amounts of \$30,948,040 and \$4,168,710 may not have been actually incurred by the time the record closes in the 2007 rate cases.
5. In any future rate cases to be filed in which Peoples Gas and North Shore are seeking recovery of merger costs, Peoples Gas and North Shore will present evidence showing the total amounts of merger-related costs actually incurred in each category and the amounts allocated to Peoples Gas and North Shore in accordance with the established allocation percentages, and that the cumulative synergy savings exceed the total costs to achieve being recovered.
6. Applicants accept and will comply with the requirements listed by Staff witness Bonita A. Pearce at lines 476-508 of Staff Exhibit 8.0.
7. Carrying costs on the merger-related costs will not be recorded in the regulatory asset, and the unamortized balance of the regulatory asset will not be included in rate base. As a result, Peoples Gas and North Shore will not recover carrying costs on the merger-related costs from ratepayers.

Service-Related Proposals

- Peoples Gas and North Shore will conduct the operational studies described in Lawrence Borgard's rebuttal testimony to Staff witness' Dennis Anderson's proposal (Ex. LTB-2.0, pp. 2-4) to assist Applicants in improving customer service. The filing of a service quality plan and of specific metrics as proposed by CUB/City witness Mr. Hornby will not be required.

Energy Efficiency Programs and Funding

1. The Order in this Docket 06-0540 will impose a condition that in their next rate cases, the Gas Companies will be required to propose to implement an energy efficiency program or programs. The condition shall also provide that:
 - (i) The Gas Companies shall propose energy efficiency program(s) in an aggregate annual amount of \$7.5 million.

- (ii) The Gas Companies shall propose a cost recovery mechanism in their next rate case filings, and will be free to propose any cost recovery mechanism in the rate cases, whether recovery through base rates or through a rider mechanism. Regardless of the cost recovery mechanism that the Gas Companies propose in their next rate cases, the Gas Companies agree to support and implement the energy efficiency program(s) at the funding levels that the Commission approves, and for which it provides cost recovery, either in base rates or a rider, in the rate case orders.
- (iii) The Gas Companies are not obligated to fund energy efficiency programs beyond the amount for which the Commission approves cost recovery in the rate case orders (as such orders may be modified as the result of any appeals). So long as the rate case orders do not require Applicants to fund energy efficiency programs in an amount greater than the amount for which the Commission provides cost recovery in such orders, either in base rates or a rider, and this amount does not exceed \$7.5 million, the Gas Companies will not seek to stay the portion of the rate case orders relating to energy efficiency programs and cost recovery.
- (iv) Intervenors and Staff will be free to oppose the energy efficiency program(s) proposed by the Gas Companies in the rate cases, to propose modifications or alternatives to the energy efficiency program(s) proposed by the Gas Companies in the rate cases, to oppose the specific cost recovery mechanism proposed by the Gas Companies, and to propose different cost recovery mechanisms, provided, that Intervenors shall not advocate that the Gas Companies be required to fund energy efficiency programs in any amount greater than \$7.5 million per year.

The parties recognize that other entities not parties to this Agreement could intervene in the rate cases and oppose implementation of any energy efficiency programs by the Gas Companies, oppose implementation programs of the size contemplated by this agreement, oppose recovery of some or all of the costs of such programs through rates, or support energy efficiency programs at sizes and funding levels greater than specified in this Agreement.

- 2. Applicants and Intervenors agree that the Applicants' 2007 rate case proposal should specify the details of the energy efficiency program(s), and agree to begin to work immediately together and with other interested parties in good faith to develop, agree on and present in the next rate case the details of such programs.
- 3. Applicants and Intervenors agree that a third-party administrator should implement the energy efficiency program(s).
- 4. Applicants and Intervenors agree that the Applicants will promote the energy efficiency program(s) through bill inserts and other appropriate mechanisms to be agreed upon prior to filing the 2007 rate cases.

Utility Workers Union of America, AFL-CIO, and UWUA Local No. 18007

1. Applicants commit that there will be no reorganization-related layoffs or reorganization-related position reductions among the UWUA Local 18007 employees.
2. Applicants will work in good faith with UWUA Local 18007 to reach agreement on identifying and implementing improvements to existing programs for the training and advancement of Peoples Gas' union employees that will build the skills of the union workforce and seek to ensure that the supply of skilled union employees is adequate as of now, and is replenished as required with appropriately trained, skilled and qualified employees.

Immediately upon consummation of the merger, Applicants and UWUA Local 18007 will begin a dialogue on the aforementioned issues. Applicants and UWUA Local 18807 may, by agreement, consult with key Staff at the Illinois Commerce Commission as needed on these issues. Applicants and UWUA Local 18007 shall file a joint report with the Commission in this docket within 90 days of the consummation of the merger. This report shall summarize the discussions to date and describe any improvements that have been or will be implemented. The report shall be filed on e-docket in "Public" and, if necessary, "Proprietary" versions.

The commitment stated herein is to a good faith effort by Applicants and UWUA Local 18007 to reach agreement, but not to a specific result or outcome in consequence of the dialogue.

3. Applicants will commit to the following staffing plan:
 - Applicants will add nine (9) Crew Leaders by means of a promotional upgrade: five at North, two at Central and two at South.
 - Applicants will add eleven (11) Gas Mechanics by means of a promotional upgrade: five at North, three at Central, and three at South.
 - Applicants will add eleven (11) Operations Apprentices by means of new entry hiring: five at North, two at Central, three at South, and one in Special Projects.
 - Applicants will add eight (8) Senior Service Specialists (Grade No. 1) by means of a promotional upgrade: four at North, two at Central, and two at South.

Resolution of All Issues

All other proposals made in the case by Intervenor and Staff (other than proposals of Staff that Applicants have previously accepted and agreed to as stated in pre-filed testimony) are resolved by the commitments made herein. The Parties will jointly submit a draft proposed order for Commission approval that is acceptable to or not opposed by Staff incorporating the agreements

and commitments contained herein as well as the proposals of Staff contained in pre-filed testimony and previously accepted and agreed to by Applicants as stated in pre-filed testimony.

III. Staff's Participation in This Agreement

Staff has reviewed Section II of this Agreement and finds that it resolves all contested issues in Docket 06-0540 in a manner that is acceptable to or not opposed by Staff. By signing this Agreement, Staff is affirming that it does not and will not oppose the resolution of the contested issues in ICC Docket 06-0540 as set forth in Section II of this Agreement.

WPS RESOURCES CORPORATION

By: Joseph P. O'Leary
Joseph P. O'Leary
Senior Vice President and Chief Financial Officer

WPS Resources Corporation
700 North Adams Street
Green Bay, Wisconsin 54301

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

By: Katherine A. Donofrio
Katherine A. Donofrio
Senior Vice President
130 East Randolph Drive, 22nd Floor
Chicago, Illinois 60601
(312) 240-4262

THE PEOPLE OF THE STATE OF
ILLINOIS

Lisa Madigan, Attorney General

By: _____

Janice A. Dale
Chief, Public Utilities Division
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-3736

ENVIRONMENTAL LAW AND POLICY
CENTER

By: _____

John N. Moore
Senior Attorney
Environmental Law and Policy Center
35 East Wacker Drive, Suite 1300
Chicago, Illinois 60601
(312) 795-3706

By: _____

Karen L. Lusson
Senior Assistant Attorney General
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-1136

and commitments contained herein as well as the proposals of Staff contained in pre-filed testimony and previously accepted and agreed to by Applicants as stated in pre-filed testimony.

III. Staff's Participation in This Agreement

Staff has reviewed Section II of this Agreement and finds that it resolves all contested issues in Docket 06-0540 in a manner that is acceptable to or not opposed by Staff. By signing this Agreement, Staff is affirming that it does not and will not oppose the resolution of the contested issues in ICC Docket 06-0540 as set forth in Section II of this Agreement.

WPS RESOURCES CORPORATION

By: _____
Joseph P. O'Leary
Senior Vice President and Chief Financial
Officer
WPS Resources Corporation
700 North Adams Street
Green Bay, Wisconsin 45301

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

By: _____
Katherine A. Donofrio
Senior Vice President
130 East Randolph Drive, 22nd Floor
Chicago, Illinois 60601
(312) 240-4262

THE PEOPLE OF THE STATE OF
ILLINOIS
Lisa Madigan, Attorney General

By: Janice A. Dale
Janice A. Dale
Chief, Public Utilities Division
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-3736

ENVIRONMENTAL LAW AND POLICY
CENTER

By: _____
John N. Moore
Senior Attorney
Environmental Law and Policy Center
35 East Wacker Drive, Suite 1300
Chicago, Illinois 60601
(312) 795-3706

By: Karen L. Lusson
Karen L. Lusson
Senior Assistant Attorney General
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-1136

and commitments contained herein as well as the proposals of Staff contained in pre-filed testimony and previously accepted and agreed to by Applicants as stated in pre-filed testimony.

III. Staff's Participation in This Agreement

Staff has reviewed Section II of this Agreement and finds that it resolves all contested issues in Docket 06-0540 in a manner that is acceptable to or not opposed by Staff. By signing this Agreement, Staff is affirming that it does not and will not oppose the resolution of the contested issues in ICC Docket 06-0540 as set forth in Section II of this Agreement.

WPS RESOURCES CORPORATION

By: _____
Joseph P. O'Leary
Senior Vice President and Chief Financial
Officer
WPS Resources Corporation
700 North Adams Street
Green Bay, Wisconsin 54301

THE PEOPLE OF THE STATE OF
ILLINOIS
Lisa Madigan, Attorney General

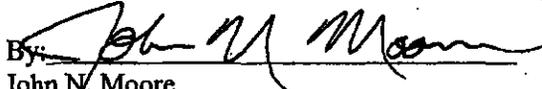
By: _____
Janice A. Dale
Chief, Public Utilities Division
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-3736

By: _____
Karen L. Lusson
Senior Assistant Attorney General
Illinois Attorney General's Office
100 W. Randolph Street, 11th floor
Chicago, IL 60601
(312) 814-1136

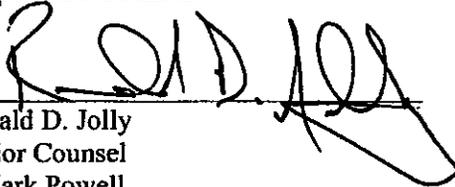
PEOPLES ENERGY CORPORATION THE PEOPLES GAS LIGHT AND COKE COMPANY NORTH SHORE GAS COMPANY

By: _____
Katherine A. Donofrio
Senior Vice President
130 East Randolph Drive, 22nd Floor
Chicago, Illinois 60601
(312) 240-4262

ENVIRONMENTAL LAW AND POLICY CENTER

By: 
John N. Moore
Senior Attorney
Environmental Law and Policy Center
35 East Wacker Drive, Suite 1300
Chicago, Illinois 60601
(312) 795-3706

CITY OF CHICAGO
Mara S. Georges
Corporation Counsel

By: 

Ronald D. Jolly
Senior Counsel
J. Mark Powell
Assistant Corporation Counsel
City of Chicago
30 North LaSalle Street, Suite 900
Chicago, Illinois 60602
(312) 744-6929

COOK COUNTY STATE'S ATTORNEY'S
OFFICE
Richard A. Devine, State's Attorney of Cook
County

By: _____

Mark N. Pera, Assistant State's Attorney
Supervisor, Environment & Energy Division

Marie D. Spicuzza
Deputy Supervisor

Allan Goldenberg
Assistant State's Attorneys
Cook County State's Attorney's Office
69 West Washington Street
Chicago, Illinois 60602
(312) 603-8600

CITIZENS UTILITY BOARD

By: _____

Julie Soderna
Director of Litigation
CITIZENS UTILITY BOARD
208 S. La Salle St., Ste. 1760
Chicago, IL 60604
(312) 263-4282

UTILITY WORKERS OF AMERICA, AFL-CIO

By: _____

D. Michael Langford
National President
Utility Workers of America, AFL-CIO
815 16th Street, NW
Washington, DC 20006
(202) 974-8200

CITY OF CHICAGO
Mara S. Georges
Corporation Counsel

By: _____
Ronald D. Jolly
Senior Counsel
J. Mark Powell
Assistant Corporation Counsel
City of Chicago
30 North LaSalle Street, Suite 900
Chicago, Illinois 60602
(312) 744-6929

CITIZENS UTILITY BOARD

By: _____
Julie Soderna
Director of Litigation
CITIZENS UTILITY BOARD
208 S. La Salle St., Ste. 1760
Chicago, IL 60604
(312) 263-4282

**COOK COUNTY STATE'S ATTORNEY'S
OFFICE**
Richard A. Devine, State's Attorney of Cook
County

By: Marie D. Spicuzza
Mark N. Pera, Assistant State Attorney
Supervisor, Environment & Energy Division

Marie D. Spicuzza
Deputy Supervisor

Allan Goldenberg
Assistant State's Attorneys
Cook County State's Attorney's Office
69 West Washington Street
Chicago, Illinois 60602
(312) 603-8600

UTILITY WORKERS OF AMERICA, AFL-CIO

By: _____
D. Michael Langford
National President
Utility Workers of America, AFL-CIO
815 16th Street, NW
Washington, DC 20006
(202) 974-8200

CITY OF CHICAGO
Mara S. Georges
Corporation Counsel

By: _____

Ronald D. Jolly
Senior Counsel
J. Mark Powell
Assistant Corporation Counsel
City of Chicago
30 North LaSalle Street, Suite 900
Chicago, Illinois 60602
(312) 744-6929

COOK COUNTY STATE'S ATTORNEY'S
OFFICE
Richard A. Devine, State's Attorney of Cook
County

By: _____

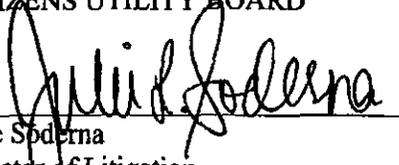
Mark N. Pera, Assistant State's Attorney
Supervisor, Environment & Energy Division

Marie D. Spicuzza
Deputy Supervisor

Allan Goldenberg
Assistant State's Attorneys
Cook County State's Attorney's Office
69 West Washington Street
Chicago, Illinois 60602
(312) 603-8600

CITIZENS UTILITY BOARD

By: _____


Julie Soderna
Director of Litigation
CITIZENS UTILITY BOARD
208 S. La Salle St., Ste. 1760
Chicago, IL 60604
(312) 263-4282

UTILITY WORKERS OF AMERICA, AFL-CIO

By: _____

D. Michael Langford
National President
Utility Workers of America, AFL-CIO
815 16th Street, NW
Washington, DC 20006
(202) 974-8200

CITY OF CHICAGO
Mara S. Georges
Corporation Counsel

By: _____
Ronald D. Jolly
Senior Counsel
J. Mark Powell
Assistant Corporation Counsel
City of Chicago
30 North LaSalle Street, Suite 900
Chicago, Illinois 60602
(312) 744-6929

CITIZENS UTILITY BOARD

By: _____
Julie Soderna
Director of Litigation
CITIZENS UTILITY BOARD
208 S. La Salle St., Ste. 1760
Chicago, IL 60604
(312) 263-4282

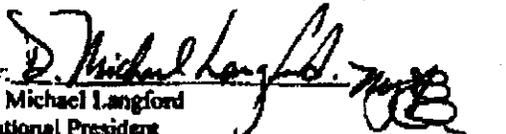
**COOK COUNTY STATE'S ATTORNEY'S
OFFICE**
Richard A. Devine, State's Attorney of Cook
County

By: _____
Mark N. Pera, Assistant State's Attorney
Supervisor, Environment & Energy Division

Marie D. Spicuzza
Deputy Supervisor

Allan Goldenberg
Assistant State's Attorneys
Cook County State's Attorney's Office
69 West Washington Street
Chicago, Illinois 60602
(312) 603-8600

UTILITY WORKERS OF AMERICA, AFL-CIO

By: 
D. Michael Langford
National President
Utility Workers of America, AFL-CIO
815 16th Street, NW
Washington, DC 20006
(202) 974-8200

UTILITY WORKERS OF AMERICA,
AFL-CIO
LOCAL UNION NO. 18007

By: James M. Bennett

James Bennett
President, Local 18007
Utility Workers of America, AFL-CIO
Suite 307
300 Ashland Avenue
Chicago, IL 60607
(312) 226-1553

By: John R. Groenwald

John Groenwald
Business Manager, Local 18007
Utility Workers of America, AFL-CIO
Suite 307
300 Ashland Avenue
Chicago, IL 60607
(312) 226-1553

STAFF OF THE
ILLINOIS COMMERCE COMMISSION,
not as a Party but for the Purposes Set Forth
in Section III of the Agreement

By: _____

Carmen L. Fusco
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle St., Suite C-800
Chicago, IL 60601-3104
(312) 814-2865
Counsel for the Staff of the
Illinois Commerce Commission

UTILITY WORKERS OF AMERICA,
AFL-CIO
LOCAL UNION NO. 18007

By: _____
James Gennett
President, Local 18007
Utility Workers of America, AFL-CIO
Suite 307
300 Ashland Avenue
Chicago, IL 60607
(312) 226-1553

By: _____
John Groenwald
Business Manager, Local 18007
Utility Workers of America, AFL-CIO
Suite 307
300 Ashland Avenue
Chicago, IL 60607
(312) 226-1553

STAFF OF THE
ILLINOIS COMMERCE COMMISSION,
not as a Party but for the Purposes Set Forth
In Section III of the Agreement

By: Carmen L. Fosco
Carmen L. Fosco
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle St., Suite C-800
Chicago, IL 60601-3104
(312) 814-2865
Counsel for the Staff of the
Illinois Commerce Commission