

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

WISCONSIN ENERGY CORPORATION,)
INTEGRYS ENERGY GROUP, INC., PEOPLES)
ENERGY, LLC, THE PEOPLES GAS LIGHT)
AND COKE COMPANY, NORTH SHORE GAS)
COMPANY, ATC MANAGEMENT INC., and)
AMERICAN TRANSMISSION COMPANY LLC)

Application pursuant to Section 7-204 of the Public)
Utilities Act for authority to engage in a)
Reorganization, to enter into agreements 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. 14-_____

APPLICATION

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TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Wisconsin Energy Corporation and Its Affiliates	4
B.	IntegrYS and Its Affiliates	5
C.	American Transmission Company	6
D.	The Reorganization	6
E.	Results and Benefits of the Reorganization	8
II.	APPROVALS AND OTHER RELIEF REQUESTED	15
III.	COMPLIANCE WITH STATUTORY REQUIREMENTS	16
A.	Reorganization under Section 7-204	16
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”	17
2.	Finding 2: “the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers”	18
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”	20
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”	20
5.	Finding 5: “the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities”	21
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”	21

7.	Finding 7: “the proposed reorganization is not likely to result in any adverse rate impacts on retail customers”	22
8.	ATC	23
B.	Required Findings under Section 7-204(c)	23
C.	Approval under Section 7-102	24
D.	Affiliated Interest Agreements under Sections 7-101 and 7-204A(b)	25
E.	Approval of Accounting Entries, If Necessary	26
F.	Certain Other Approvals	26
IV.	SUBMISSION OF REQUIRED INFORMATION AND DIRECT TESTIMONY	26
V.	NOTICES	27

I. INTRODUCTION

Pursuant to Section 7-204 of the Illinois Public Utilities Act (the “Act”), 220 ILCS 5/7-204, Wisconsin Energy Corporation (“Wisconsin Energy”), Integrys Energy Group, Inc. (“Integrys”), Peoples Energy, LLC (“PELLC”), The Peoples Gas Light and Coke Company (“Peoples Gas”), North Shore Gas Company (“North Shore”) (collectively, Peoples Gas and North Shore are referred to herein as the “Gas Companies”), ATC Management Inc. (“ATCM”) and American Transmission Company LLC (“ATCLLC”) (collectively, ATCM and ATCLLC are referred to herein as “ATC”) (all, collectively, the “Joint Applicants”) respectfully seek the approval of the Illinois Commerce Commission (the “Commission”) for a “reorganization” of the Gas Companies and ATC.

The reorganization for which approval is requested here is the agreement by Wisconsin Energy to acquire 100% of the outstanding common stock of Integrys to create a new holding company – WEC Energy Group, Inc. (“WEC Energy Group”) – that will wholly own PELLC and the Gas Companies and own a majority interest in ATC (the “Reorganization”). Peoples Gas and North Shore will continue to exist and operate as Illinois public utilities with operational headquarters in downtown Chicago and Waukegan, respectively, as they did prior to the Reorganization, but as wholly-owned indirect subsidiaries of WEC Energy Group. ATC will remain an Illinois public utility for the purposes of the small amount of electric transmission facilities that it owns and operates in Illinois.

The Reorganization will create a leading energy holding company in the Midwest with electric and natural gas utilities serving more than four million customers across four states. The Transaction is in the best interests of utility consumers, investors, and the public because it will:

- create a larger, more geographically diverse and financially stronger Midwestern energy company with greater liquidity

and improved access to capital markets, which positions the combined company for more continued growth;

- combine two industry leaders in safety, reliability and customer satisfaction;
- facilitate continued prudent investment in needed utility infrastructure, including the ability to use the strong cash flows of the combined company to fund investment;
- strengthen the WEC Energy Group's operating companies, including the Gas Companies, by integrating best practices in distribution operations, large capital project management, gas supply, system reliability and customer service;
- maintain Wisconsin Energy's and Integrys' long tradition of making significant contributions to regional economic development and generous support of educational, cultural, and charitable activities in the communities they serve;
- deliver cost savings over time by capitalizing on efficiencies and economies of scale, including expanded use of a services company.

The Reorganization will benefit the Gas Companies' customers over time by creating opportunities for the combined holding company system to achieve savings through enhanced purchasing power, economies of scale, joint planning over a larger and more diverse system, the adoption and implementation of best practices, efficiencies in operation and maintenance and project management, and sharing administrative and other services over a larger organization. In addition, the formation of WEC Energy Group will give the Gas Companies a larger and stronger financial platform for making investments to maintain safety and improve reliability and customer service, including Peoples Gas' Accelerated Main Replacement Program ("AMRP").

The Reorganization will not have any immediate rate impacts. WEC Energy Group will deliver the future benefits of the Reorganization to customers when the Gas Companies' base rates are reset based on the cost of service in future proceedings. However, as a result of a series

of meetings with stakeholders in Illinois following the announcement of the Reorganization, including the Commission, the Illinois Attorney General's office, the City of Chicago and the Citizens Utility Board, among others, WEC has gained a greater perspective on the needs of the customers and communities serviced by Peoples Gas and North Shore. Based on the information provided by these stakeholders, WEC is prepared to provide immediate benefits to customers and communities the Gas Companies serve in the form of the following commitments that it would accept as conditions on the Commission's approval of the Reorganization, as described in more detail below:

1. The Gas Companies will not seek recovery of any costs incurred to accomplish the Reorganization or any portion of the acquisition premium.
2. The Gas Companies will not seek increases of their base rates set in Docket Nos. 14-0224/14-0225 (cons.) that would become effective earlier than 2 years after the Reorganization closes (resulting in no changes to base rates for 2.5 years or so).
3. WEC Energy Group will maintain at least 1,953 full-time equivalent employment positions in the State of Illinois for the same two-year period.
4. The Gas Companies' existing labor agreements will be honored.
5. The Gas Companies' existing commitments to worker training will be maintained for 2 years after the Reorganization closes.
6. Peoples Gas will maintain its current AMRP.
7. WEC Energy Group will carefully review the results of the Commission's audit of the Peoples Gas AMRP and will ensure that Peoples Gas works to coordinate with the City of Chicago in the execution of the AMRP.
8. WEC Energy Group will work with interested stakeholders to develop recommendations for the Gas Companies' energy efficiency programs.
9. WEC Energy Group will maintain Integrys' existing levels of community involvement in the communities the Gas Companies serve.
10. The WEC Energy Group board will include at least one non-employee individual resident of Illinois.

For all of these reasons, the Reorganization is in the best interests of utility consumers, investors and the public and should receive the Commission's approval.

A. Wisconsin Energy Corporation and Its Affiliates

Wisconsin Energy is a Wisconsin public utility holding company. In fiscal 2013, Wisconsin Energy had operating revenues of approximately \$4.5 billion, net income of approximately \$577.4 million, and employed approximately 4,300 people. Through its subsidiary utilities, Wisconsin Electric Power Company ("WEPCO") and Wisconsin Gas LLC ("WG") (both doing business as "We Energies"), Wisconsin Energy serves 1.1 million electric customers and 1.1 million natural gas customers throughout Wisconsin and the Upper Peninsula of Michigan. Wisconsin Energy's utility assets include 6,021 MW of electric generation capacity, 45,597 miles of electric distribution lines, and 20,967 miles of gas transmission and distribution lines.

Historically and to the present, Wisconsin Energy and its affiliates have taken very seriously their responsibilities to stakeholders and their obligation to be good corporate citizens.

This commitment has been widely recognized, most recently by the following:

- BizTimes 2014 Regional Spirit Award to Wisconsin Energy for the company's long history of commitment to the Milwaukee region.
- Corporate Responsibility magazine 2014 recognition of Wisconsin Energy as one of the 100 best corporate citizens in the United States for the seventh consecutive year based on environmental performance, employee relations, philanthropy, finance and governance.
- For 2013, PA Consulting Group presented WEPCO with its ReliabilityOne™ National Reliability Excellence Award, recognizing the company as the most reliable electric utility in America. In addition, for the ninth time in twelve years WEPCO received PA's ReliabilityOne™ Award for leading the Midwest region in electric reliability performance.

- J.D. Power 2013 ranked the company second in the Midwest region for overall residential electric customer satisfaction (considering price, communications and customer service, corporate citizenship, billing and payment, and power quality and reliability).
- J.D. Power 2013 ranked the company highest among large utilities in the Midwest Region for overall business electric customer satisfaction (considering price, communications and customer service, corporate citizenship, billing and payment, and power quality and reliability).

B. Integrys and Its Affiliates

Integrys is a Wisconsin holding company that was originally formed in 1994, and established in its current structure on February 21, 2007 with the merging of WPS Resources Corporation and Peoples Energy Corporation (now PELLC). Integrys presently owns and operates six regulated natural gas and electric utilities that serve a total of 2.1 million customers in Wisconsin, Minnesota, Michigan, and Illinois, as well as its service company, Integrys Business Support, LLC (“IBS”), which provides a suite of shared services to the holding company system.¹ In 2013, Integrys had total revenue of \$5.6 billion, net income of \$350 million, and employed about 5,000 people. In Illinois, Peoples Gas serves 829,000 natural gas customers in the City of Chicago, and North Shore serves 160,000 natural gas customers in suburbs north of Chicago.

Integrys also owns and operates Integrys Energy Services, Inc. (“IES”), which provides retail gas and electric marketing to customers in 22 states, including Illinois, across the northeast quadrant of the United States, and Trillium CNG, a leading provider of compressed natural gas fueling services.² On July 30, 2014, Integrys announced that it had agreed to sell IES to a

¹ In January 2014, Integrys announced an agreement to sell Upper Peninsula Power Company (“UPPCo”), which is an electric utility servicing customers in the upper peninsula of Michigan. At the time of filing this Application, the sale of UPPCo has not yet closed.

² A complete list of Integrys’ subsidiaries and affiliates is provided in Attachment A as required by 220 ILCS 5/7-204A(a).

subsidiary of Exelon Corporation. This sale will not include IES's solar generation business, which will be moved to another Integrys subsidiary. The sale is expected to close in the fourth quarter of 2014 or the first quarter of 2015. Therefore, IES's competitive electric and natural gas businesses will not become part of WEC Energy Group.

C. American Transmission Company

ATCLLC is a Wisconsin limited liability company managed by a corporate manager, ATCM, a Wisconsin corporation. Together they operate as a single entity, "ATC," which owns and operates a high-voltage electric transmission system in an area from the Upper Peninsula of Michigan, throughout the eastern half of Wisconsin and small portions of Minnesota and Illinois. ATC is owned primarily by the electric utilities in eastern Wisconsin that contributed transmission facilities to it, including Wisconsin Energy subsidiary WEPCO and Integrys subsidiary Wisconsin Public Service Corporation.

ATC is an Illinois public utility that owns and operates two 345 kV transmission lines and associated facilities, each less than two miles in length, that interconnect with the 345 kV system of Commonwealth Edison Company, as well as a 69 kV transmission line and associated facilities that form a nine-mile loop in Winnebago County and serve four distribution substations. Order, Docket 01-0142 (Jan. 23, 2003); Order, Docket 11-0661 (April 10, 2012).

D. The Reorganization

Following unanimous approvals by their respective boards of directors, Wisconsin Energy and Integrys entered into the Agreement and Plan of Merger dated June 22, 2014 (the "Agreement," Joint Applicants Ex. 1.1), whereby Wisconsin Energy will acquire 100% of the outstanding common stock of Integrys. Pursuant to the terms of the Agreement, Integrys shareholders will receive 1.128 Wisconsin Energy shares plus \$18.58 in cash for each Integrys

share. Total consideration was valued on June 20, 2014 at \$71.47 per Integrys share, with a consideration mix of 74 percent stock and 26 percent cash. This represents a 17.3% premium to Integrys' closing price on June 20, 2014, and a 22.8% premium to the volume-weighted average share price over the 30 trading days ending June 20, 2014. The transaction will be financed by issuing new Wisconsin Energy stock and by Wisconsin Energy issuing approximately \$1.5 billion in acquisition debt, likely in the form of intermediate and long-term debt. Upon closing of the transaction, Integrys shareholders will own approximately 28% of the combined company. The overall value of the transaction is approximately \$9.1 billion, with \$5.8 billion for Integrys shares and \$3.3 billion of assumed Integrys debt.

Under the terms of the Agreement, at closing the current holding company Integrys will merge with a subsidiary created by Wisconsin Energy, with Integrys being the surviving entity in that merger. Immediately thereafter, Integrys will merge into a second subsidiary also created by Wisconsin Energy, with the second subsidiary being the surviving entity in that merger. After these actions, the surviving entity, the "Subsequent Merger Subsidiary," will be a subsidiary of WEC Energy Group, will stand in the shoes of Integrys, and will have all of the then-current Integrys utility and non-utility subsidiaries under it. The corporate status and names of the Gas Companies will be unchanged. Each will continue to operate as an Illinois public utility, and each will remain subject to Commission jurisdiction and applicable law and regulations.

As a result of the Reorganization, WEC Energy Group will gain a majority ownership interest in ATC. Currently, Integrys owns 34.07% of the outstanding shares of ATCM and Wisconsin Energy owns 26.24%. Following the Reorganization, WEC Energy Group will own 60.31% of the outstanding shares of ATCM. WEC Energy Group will not exercise majority

control over ATC, however. Other than with respect to certain fundamental corporate matters,³ Wisconsin Energy will commit to the Federal Energy Regulatory Commission that following the Reorganization, on all matters requiring a vote of ATCM's owners, the combined company will independently vote 34.07% of ATCM's shares. Thus, the combined company will have the same influence that Integrys currently has on matters affecting the management, operations and planning activities of ATC. The owners unaffiliated with the combined company effectively will vote ATCM's shares that the combined company owns but does not vote independently, and control of ATC will be more distributed after the combination than it is today.

Assuming all regulatory approvals are timely received, the Reorganization is expected to close in the second half of 2015. The post-closing structure of the WEC Energy Group system is shown in Joint Applicants Ex. 1.3.

E. Results and Benefits of the Reorganization

A Larger, More Diverse and Stronger Platform for Growth

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 energy company in the Midwest that will provide superior service at just and reasonable prices. Combined, the electric and natural gas utilities of the WEC Energy Group will have a regulated rate base of about \$17 billion in 2015, serve more than 4.3 million total gas and electric customers across Illinois, Wisconsin, Michigan, and Minnesota, and operate nearly 71,000 miles

³ To the extent a vote by ATC's owners is required, as opposed to action that can be taken by ATC's board, the fundamental corporate matters on which the combined company would propose to maintain its full voting power include: (1) a sale of all or substantially all of the assets of ATC; (2) a change in control of ATC or ATCM; (3) bankruptcy; (4) an initial public offering; (5) the merger or consolidation of ATC with, or a proposal to acquire all or substantially all of the assets of, another company; and (6) any proposal to amend ATC's or ATCM's governing documents that would reduce the combined company's rights as a member or shareholder. The combined company will not use its full ownership interest to initiate any of these or similar actions but will only act to protect and preserve its expanded economic interest in ATC if such actions are initiated by others.

of electric distribution lines and more than 44,000 miles of gas transmission and distribution lines.

The Transaction reflects the movement toward consolidation in the utility industry over the past two decades. In recent years, electric and gas utilities have experienced slow demand growth due to economic conditions and increased energy efficiency and conservation. Combined with steady increases in operating costs, utilities face financial pressure on cash flows, balance sheets and credit metrics. The strategic combination of two leading Midwestern energy companies will enable WEC Energy Group to operate more effectively in the rapidly changing and capital-intensive energy business. The strong cash flow of the combined company can be prudently invested in needed energy infrastructure, including environmental retrofits, gas main replacements and new technologies. Over the long term, WEC Energy Group's increased financial strength will promote enhanced access to capital to fund the ongoing strategic initiatives of the combined company. The increased diversification of the combined company will also create opportunities to achieve efficiencies over time through the sharing of best practices among its large and expert workforce across its system.

Wisconsin Energy is fully capable, willing, and ready to undertake the Reorganization, bringing a team of highly qualified leaders, managers, and employees. This group has many years of experience running utilities effectively and efficiently, providing safe, reliable and cost-effective energy delivery, and responsive customer service. Additionally, Wisconsin Energy has a proven track record of acquiring and integrating gas distribution utilities and utility holding companies. In 1996, Wisconsin Natural Gas Company successfully merged with Wisconsin Energy subsidiary Wisconsin Electric. Most recently, in 2000, Wisconsin Energy acquired utility holding company WICOR and its utility subsidiary Wisconsin Gas.

Seamless Transition From Customers' Perspective

From the perspective of the Gas Companies' customers, the Reorganization will be seamless. Peoples Gas and North Shore will remain separate Illinois public utilities as they are now, with their current local operational headquarters, and continue to provide adequate, reliable, efficient, and safe natural gas service to their customers. Furthermore, the Gas Companies will continue to receive services from the same centralized services company, under the same Commission-approved terms, conditions and cost allocations, as they do now.

Employment Level, Union Contracts and Training Maintained

Many corporate transactions are motivated by a belief that consolidation can result in large, quickly-achieved cost savings. The source of such savings is often significant reductions in employee headcount. The Reorganization does not fit that mold. The Reorganization is primarily motivated by, and makes business sense based on, the fact that it results in a combined company with strong cash flow that can be prudently invested in needed energy infrastructure. The Gas Companies' employees will benefit by becoming part of an organization that is better equipped to maintain its independence and cost effectiveness in the rapidly changing energy business. In order to minimize disruption and ensure a deliberate transition to combined operations, Wisconsin Energy is not planning the sort of reduction in force that occurs in many corporation consolidations. To the contrary, the vast majority of any reductions in employee headcount resulting from the Reorganization will occur through attrition.

Consistent with Wisconsin Energy's commitment to ensure that the Gas Companies continue to provide a high level of service that is adequate, reliable, efficient and safe, the Gas Companies will continue to honor their existing labor agreements. In addition, for two years

after the Reorganization closes,⁴ the Gas Companies will maintain their existing training programs, including those designed to ensure compliance with pipeline safety requirements, as well as the gas workers degreed training program developed in partnership with the City Colleges of Chicago and the UWUA Power for America Training Trust Fund at the Dawson Technical Institute of Chicago.

To further emphasize its commitment to the State of Illinois, WEC Energy Group will maintain at least 1,953 full-time equivalent (“FTE”) employee positions in the State of Illinois for at least 2 years after the Reorganization closes. In addition, so long as it owns or controls at least one of the Gas Companies, WEC Energy Group’s board will include at least one non-employee individual Illinois resident.

Continuation of Peoples Gas Accelerated Main Replacement Program

Wisconsin Energy will continue the Peoples Gas AMRP for the replacement of cast iron and ductile iron mains and upgrade of the natural gas distribution system in the City of Chicago, and has the management experience to ensure that the AMRP is run both effectively and efficiently. Wisconsin Energy has successfully implemented and managed large infrastructure improvement projects in urban areas. Between 2003 and 2013, Wisconsin Energy invested \$9.1 billion to keep its gas and electricity equipment and facilities updated and in compliance with regulatory standards.⁵ In 2012, Wisconsin Energy announced plans to invest up to an additional \$3.5 billion in infrastructure upgrades and renewable energy projects, including the replacement of aging gas pipelines.

⁴ Because several of Wisconsin Energy’s commitments will run for a two year period from the closing of the Transaction, Wisconsin Energy also commits that it will file a notice in this proceeding on e-Docket, to be served in the normal course as other filings on the parties of record, informing the Commission and the parties when closing of the Transaction has occurred.

⁵ Of the \$9.1 billion, \$5.5 billion was invested in new electric generation and generation upgrades, \$3.1 billion in natural gas and electric distribution projects, and \$0.5 billion in customer service and corporate support.

As discussed in Mr. Leverett's testimony, Wisconsin Energy's recent infrastructure investments have included a significant project to replace cast iron, bare steel and legacy plastic gas mains in southeastern Wisconsin, including the City of Milwaukee. Since 2008, Wisconsin Energy has spent \$470 million to replace 900 miles of vintage steel and plastic gas mains, 68,000 individual gas distribution lines and 150,000 meter sets. Going forward Wisconsin Energy's capital budget calls for investing an additional \$600 million over the period 2014-2018 to replace an additional 1,100 miles of vintage steel and plastic gas mains, 83,000 individual gas distribution lines and 233,000 meter sets.

Wisconsin Energy is aware that the Commission has initiated an audit of the Peoples Gas AMRP and that certain stakeholders, including the City of Chicago, are concerned about the performance of the program. WEC Energy Group will carefully review the results of the audit and will ensure that Peoples Gas works to coordinate with the City of Chicago in the execution of the program.

Wisconsin Energy Is Committed To Supplier Diversity

Wisconsin Energy has had its Supplier Diversity Initiative ("SDI") in place for approximately ten years. The SDI is linked to company performance goals, integrated into its corporate strategies, and directed by senior management. Through a number of coordinated efforts, the SDI has resulted in increased spending with diverse suppliers. Spending with these suppliers increased from \$17.6 million in 2006 to \$84.1 million in 2013, and in the first five months of 2014 Wisconsin Energy spent \$45.2 million with these suppliers. The Reorganization will bring the SDI to the operations of the Gas Companies in and around Chicago.

No Immediate Rate Impacts

There will be no immediate impact from the Reorganization on the rates the Gas Companies' customers pay for their service. It is common in transactions of this nature for the acquiring company to pay an "acquisition premium," that is, to pay a price for the acquired company that exceeds the latter's book value and represents the latter's value as a going concern. Wisconsin Energy will not seek the inclusion of any portion of the acquisition premium in the Gas Companies' rate bases, nor the amortization of the premium in future cost of service determinations. Nor will the Gas Companies seek the recovery of costs incurred to accomplish the Reorganization.

The Gas Companies' pending rate cases in Docket Nos. 14-0224/14-0225 (cons.) should result in new rates that are effective on or before February 1, 2015. The Gas Companies will not request any further changes to their base rates that would become effective earlier than 2 years after the Reorganization closes.⁶ With that closing expected in the second half of 2015, the Gas Companies' base rates will not change for 2.5 years or so. Thereafter, the Gas Companies' customers will receive all of the achieved savings, net of the costs to achieve those savings, as reflected in the Gas Companies' test year costs in their future base rate cases.

Transition to Service Company Model

On or shortly after closing, Integrys' service company subsidiary, IBS, will become a

⁶ Because this commitment applies to base rates, all riders and automatic adjustment clauses in effect as of the Commission's final Order in the pending rate cases (subject to action by the Supreme Court of Illinois in the pending appeal of the Gas Companies' Volume Balancing Adjustment Rider) would remain in effect and continue to operate pursuant to their terms. While this commitment is not contingent on Rider VBA being affirmed by the Illinois Supreme Court in the pending appeal of that rider by the Attorney General and Citizens Utility Board, the Gas Companies reserve the right to seek revenue neutral modifications to their rate designs in the event the court reverses the Commission's approval of the rider. The Gas Companies would retain the right to request that the Commission waive this base rate limitation if the financial integrity of Peoples Gas and/or North Shore is jeopardized to the extent of negatively affecting customers. Finally, this commitment is not intended to deprive the Gas Companies of their rights to seek rehearing or judicial review of the Commission's decision in their pending base rate cases.

direct subsidiary of WEC Energy Group and be renamed WEC Business Services, LLC (“WBS”). WBS will continue to provide support to today’s Integrys subsidiaries pursuant to the Commission-approved IBS agreements. Initially, WEC Energy Group and today’s Wisconsin Energy subsidiaries will be allowed but not required to take services from WBS. Services provided by other companies in the WEC Energy Group system will be governed by a separate affiliated interest agreement that allocates costs appropriately and prevents unjustified subsidization between the companies. These arrangements will allow WEC Energy Group to begin transitioning to a service company model similar to the existing Integrys/IBS structure.

Future Savings Will Inure To Customers

The Reorganization is not based upon the accomplishment of immediate synergy savings. Indeed, in part because of Wisconsin Energy’s commitment to maintain a level of FTE positions in Illinois, no synergy savings (net of the costs to achieve them) from the combination are expected in the first 2-3 years following its closing. As explained in the testimony of Mr. John Reed from Concentric Energy Advisors, Inc., any net savings realized by the Gas Companies from the Reorganization will occur gradually over time largely through voluntary attrition and ongoing management actions designed to control costs, and there will be costs to achieve such savings. Based on his analysis of other recent energy company mergers, Mr. Reed expects the Reorganization to generate net savings in the range of 3% to 5% of non-fuel O&M costs after a five to ten year “ramp up” period compared to what non-fuel O&M costs for the WEC Energy Group companies would have been absent the Transaction.

Commitment to Energy Efficiency

The Gas Companies’ customers and a number of Illinois stakeholders seek innovative ways to conserve energy and use it more efficiently. WEC Energy Group will continue the Gas

Companies' leadership in this area and will work with interested stakeholders to develop recommendations for changes to the Gas Companies' existing programs.

Commitments To Communities Maintained

The Gas Companies will remain committed to and involved with the communities they serve. Wisconsin Energy and Integrys both have strong traditions of service to the communities they serve, supporting a variety of civic, community, and philanthropic efforts. These traditions will continue after the Reorganization. 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 will be in the best interests of both WEC Energy Group 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.

For all of these reasons, the Reorganization will benefit customers, employees, shareholders, and the communities that the Gas Companies serve. Wisconsin Energy is committed to assuring that the Gas Companies' customers receive adequate, reliable, efficient, safe, and reasonably priced energy services, as well as high quality customer service. Wisconsin Energy looks forward to the same productive relationships with Peoples Gas' and North Shore's customers, employees, and regulators that it enjoys with its existing customers, employees, and regulators.

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 of the Act to engage in the Reorganization, through which Peoples Gas and North

Shore will become subsidiaries of Wisconsin Energy and Wisconsin Energy will gain a majority ownership interest in ATC;

- (b) the Commission’s approval (to the extent required) under Section 7-102 of the Act to engage in the Reorganization;
- (d) the Commission’s authorization, pursuant to Sections 7-101 and 7-204A(b) of the Act for entry by WEC Energy Group and its subsidiaries into an affiliated interest agreement substantially similar to the Commission-approved Integrys Affiliated Interest Agreement under which any company in the holding company system can receive services from any other company except WBS;⁷
- (e) the Commission’s approval of any required proposed accounting entries associated with the Reorganization; and
- (f) the Commission’s authorization for taking such other measures in connection with the Reorganization as may be reasonably necessary for effecting the Reorganization.

III. COMPLIANCE WITH STATUTORY REQUIREMENTS

A. Reorganization under Section 7-204

The Reorganization fits within the definition for Section 7-204 of the Act, 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.

⁷ As discussed herein, WEC Energy Group and today’s Wisconsin Energy subsidiaries will also enter into affiliated interest agreements with WBS that allow but do not require them to take service from the service company. Because those agreements do not involve any Illinois entity, the Joint Applicants do not believe that they need Commission approval. However, the forms of these agreements are provided for the Commission’s information as Joint Applicants Exhibits (“Ex.”) 2.2 and 2.3.

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”**

Wisconsin Energy has a strong record of maintaining the financial strength of its regulated subsidiaries and operating them reliably, efficiently, and safely. Under Wisconsin Energy's ownership, the Gas Companies will continue to provide adequate, reliable, efficient, safe, and least-cost public utility service. Wisconsin Energy will continue Integrys' existing commitment to Peoples Gas' AMRP for the accelerated improvement of its distribution system. Wisconsin Energy's commitment to industry best practices and operational excellence will help ensure that a high quality of service is provided to the Gas Companies' customers. Wisconsin Energy has a long history of customer satisfaction with respect to service reliability and quality. Wisconsin Energy intends that the same high level of service be delivered to the Gas Companies' customers. The Gas Companies' ability to continue providing adequate, reliable, efficient, safe and least-cost service is further ensured by Wisconsin Energy's commitments to maintain a level of employment in Illinois, continue ongoing training programs, and keep the base rates to be established by the Commission in the Gas Companies' pending rate cases unchanged for a period of more than two years.

The direct testimony of Joint Applicants' witness(es) Mr. Allen Leverett (Joint Applicants Ex. 1.0), Mr. John Reed (Joint Applicants Ex. 3.0), and Mr. James Schott (Joint Applicants Ex. 4.0) address these issues and demonstrate that the Reorganization meets the requirements of Section 7-204(b)(1). Accordingly, the Commission should make this finding under Section 7-204(b)(1).

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

The Reorganization will be governed by appropriate contractual requirements, allocation standards and compliance processes to ensure that Wisconsin Energy’s 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 will keep corporate costs and intra-company transfers properly allocated. Wisconsin Energy has successfully used similar measures to maintain proper cost allocation and accounting among its subsidiaries, and to avoid cross-subsidization among them.

Currently, Wisconsin Energy and its subsidiaries share services pursuant to a series of affiliated interest agreements, including a Master Service Agreement between Wisconsin Energy and each of its subsidiaries and a Master Service Agreement between Wisconsin Energy’s utility subsidiaries. The Integrys system includes a centralized service company, IBS, that provides a defined suite of shared services to the holding company and all of the operating companies. The non-IBS Integrys companies may also provide services to IBS and to each other under a separate affiliated interest agreement.

The Reorganization will not affect the existing relationship between IBS and today’s Integrys companies, including the Gas Companies. At or shortly after closing IBS will become a direct subsidiary of WEC Energy Group and be renamed WBS. WBS will maintain the existing IBS affiliated interest agreements with today’s Integrys subsidiaries. Over time Wisconsin Energy expects that WBS will provide WEC Energy Group and today’s Wisconsin Energy subsidiaries with an increasing range of services. However, adequate planning and implementation time will be required in order to begin the provision of each of the services that

WBS will ultimately deliver to the Wisconsin Energy companies. Immediately after closing, WBS is expected to provide the Wisconsin Energy companies with senior management services⁸ and perhaps legal, accounting, human resources, finance, or other services.

To put these arrangements in place, at or shortly after closing WEC Energy Group and today's Wisconsin Energy subsidiaries will execute interim affiliated interest agreements that allow but do not require the Wisconsin Energy companies to take services from WBS. These interim agreements will be based on the Commission-approved Master IBS Regulated and Non-Regulated Affiliated Interest Agreements.⁹ This will allow the Wisconsin Energy companies to begin receiving some services from WBS immediately under terms and conditions already approved by this Commission, while allowing a transition period during which it can be determined which additional services it would be in the customers' best interests for the WEC Energy Group companies to receive from WBS. Forms of these agreements are provided for information as Joint Applicants Exs. 2.2 and 2.3.

In addition, WEC Energy Group and all of its subsidiaries (today's Wisconsin Energy and Integrys subsidiaries) will execute an agreement substantially similar to the Commission-approved Integrys Affiliated Interest Agreement (Joint Applicants Ex. 2.4). This will allow companies in the WEC Energy Group system (except WBS) to provide services to other companies in the system – when it is in the customers' best interests to do so – pursuant to appropriate contractual requirements, allocation standards and compliance processes. Because the Gas Companies will be parties to the “WEC Energy Group Affiliated Interest Agreement,” Commission approval is required. The existing Wisconsin Energy Master Service Agreements

⁸ Wisconsin Energy expects that members of the senior management team with overall responsibility for the holding company and the utility subsidiaries, as well as other appropriate personnel, will become employees of WBS after closing so that their associated costs can be appropriately allocated across the WEC Energy Group system.

⁹ The only substantive changes are to ensure that the Wisconsin Energy companies are not overcharged under the general/corporate cost allocators under the interim agreements.

will be terminated so that the Wisconsin Energy companies provide each other services under a single affiliated interest agreement.

The direct testimony of Joint Applicants' witness Mr. Scott Lauber (Joint Applicants Ex. 2.0) addresses these issues and demonstrates that the Reorganization meets the requirements of Section 7-204(b)(2). Accordingly, the Commission should make this finding under Section 7-204(b)(2).

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 discussed above, Wisconsin Energy and the Gas Companies will have the appropriate agreements and systems in place for ensuring a fair and accurate allocation of costs and facilities between utility and non-utility activities. These agreements and systems will provide for a fair and reasonable allocation of costs between the utility subsidiaries and between utility and non-utility subsidiaries of the combined company, and readily allow the Commission to identify which of those costs are appropriately recoverable in the Gas Companies' rates. Moreover, Peoples Gas and North Shore will continue to adhere to the Commission's Uniform System of Accounts for Gas Utilities. The direct testimony of Joint Applicants' witness Mr. Scott Lauber (Joint Applicants Ex. 2.0) addresses this issue and demonstrates that the Reorganization meets the requirements of Section 7-204(b)(3). Accordingly, the Commission should make this finding under Section 7-204(b)(3).

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”

The Reorganization will not impair the Gas Companies' ability to raise capital on reasonable terms or maintain a reasonable capital structure. The enhanced financial strength of

WEC Energy Group will ensure that the Gas Companies continue to have access to long-term and short-term capital markets at reasonable cost. For similar reasons, the Reorganization will strengthen the Gas Companies' ability to maintain a reasonable capital structure. The credit rating agencies have evaluated the Reorganization and reaffirmed the Gas Companies' current credit ratings. The direct testimony of Joint Applicants' witness Mr. Scott Lauber (Joint Applicants Ex. 2.0) addresses this issue and demonstrates that the Reorganization meets the requirements of Section 7-204(b)(4). Accordingly, the Commission should make this finding under Section 7-204(b)(4).

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

Peoples Gas and North Shore will not merge or otherwise change corporate form as a consequence of the Reorganization. The Gas Companies will each remain Illinois public utilities and will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois public utilities. The direct testimony of Joint Applicants' witness Mr. Allen Leverett (Joint Applicants Ex. 1.0) addresses this issue and demonstrates that the Reorganization meets the requirements of Section 7-204(b)(5). Accordingly, the Commission should make this finding under Section 7-204(b)(5).

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 should have no significant adverse impact on the competitive retail gas markets in Illinois. Pursuant to the Gas Companies' gas tariffs, and in accordance with federal and state laws, 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.

Additionally, as discussed above, prior to the expected closing of the Reorganization, Integrys anticipates that it will have completed divesting the competitive retail electric and natural gas marketing businesses of its non-regulated energy marketing subsidiary, IES, to Exelon. Therefore, WEC Energy Group will not include these businesses, further demonstrating that the Reorganization will not have any adverse effect on competition in the markets over which the Commission has jurisdiction.

Concurrent with this application, Wisconsin Energy is seeking approval of the transaction from the Federal Energy Regulatory Commission ("FERC"), as well as Hart-Scott-Rodino clearance from the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC"). These governmental entities will be analyzing the Reorganization for, among other things, competitive issues falling outside the Commission's jurisdiction.

For these reasons, the Reorganization will not adversely affect competition in Commission-jurisdictional markets. The direct testimony of Joint Applicants' witnesses Mr. Allen Leverett (Joint Applicants Ex. 1.0) and Mr. James Schott (Joint Applicants Ex. 4.0) address these issues and demonstrate that the Reorganization meets the requirements of Section 7-204(b)(6). Accordingly, the Commission should make this finding under Section 7-204(b)(6).

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. As discussed above, the Gas Companies will not seek any base rate increases that would become

effective for a period of two years after the Reorganization closes, which is not expected to occur until the second half of 2015.

The direct testimony of Joint Applicants' witnesses Mr. Allen Leverett (Joint Applicants Ex. 1.0), Mr. Scott Lauber (Joint Applicants Ex. 2.0), Mr. John Reed (Joint Applicants Ex. 3.0), and Mr. James Schott (Joint Applicants Ex. 4.0) address these issues and demonstrate that the Reorganization meets the requirements of Section 7-204(b)(7). Accordingly, the Commission should make this finding under Section 7-204(b)(7).

8. ATC

All of the findings above should be made for Wisconsin Energy's acquisition of a majority ownership interest in ATC. ATC is an Illinois public utility due to its ownership of a relatively small amount of electric transmission facilities within the state. ATC charges no retail rates to any Illinois end-user and ATC's transmission service rates are regulated exclusively by the FERC. And, as discussed above, except for fundamental corporate matters, Wisconsin Energy will not exercise control over ATC on matters requiring shareholder approval. For these reasons, Wisconsin Energy's acquisition of a majority ownership interest in ATC will have no material impact on end-use customers, competition or the Commission's regulatory authority.

B. Required Findings under Section 7-204(c)

Under Section 7-204(c) of the Act, 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."

As explained in the testimony of Mr. Reed (Joint Applicants Ex. 3.0), any net savings realized by the Gas Companies from the Reorganization will occur gradually over time largely

through voluntary attrition and ongoing management actions designed to control costs. Wisconsin Energy expects to incur significant costs to achieve these savings. Mr. Reed's analysis demonstrates that the net savings ultimately to be achieved as a result of the Reorganization are expected to be in the range of up to 3% to 5% of the holding company system's non-fuel/non-commodity O&M costs after a "ramp up" period of 5-10 years.

Accordingly, as explained in the testimony of Mr. Lauber (Joint Applicants Ex. 2.0) and Mr. Reed (Joint Applicants Ex. 3.0), the Joint Applicants propose that any net savings ultimately achieved as a result of the Reorganization flow to customers by being reflected in the determination of the Gas Companies' test year costs of service in their subsequent rate cases. This will allocate any net savings achieved by the Reorganization to customers as part of the ratemaking process, and satisfy the Commission's obligations under Section 7-204(c)(i) of the Act. With respect to the costs incurred to accomplish the Reorganization, as discussed in Mr. Leverett's testimony (Joint Applicants Ex. 1.0), Wisconsin Energy is not requesting recovery for any of the costs for accomplishing the Reorganization, so the Commission need not determine whether any of those costs are recoverable under Section 7-204(c)(ii) of the Act.

C. Approval under Section 7-102

Section 7-102 of the Act requires Commission approval whenever a "public utility may by any means, direct or indirect, merge or consolidate its franchises, license, 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).

Based on Section 7-204(e) and the structure of the Reorganization, the Joint Applicants do not believe that either of the above-referenced provisions of Section 7-102 applies. The Reorganization 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 of control transaction over which the Commission has jurisdiction under Sections 7-204 and 7-204A of the Act.

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. Affiliated Interest Agreements under Sections 7-101 and 7-204A(b)

The Gas Companies will remain subject to the Commission-approved Master IBS Regulated Agreement, under which they currently take services from IBS. At or shortly after the Reorganization closes, IBS will become a direct subsidiary of WEC Energy Group and be renamed WBS. The Gas Companies will also become parties to an agreement substantially similar to the Commission-approved Integrys Affiliated Interest Agreement under which they may provide services to WEC Energy Group and its subsidiaries (including WBS) and may take services from WEC Energy Group and its subsidiaries (except WBS). Approval of this agreement is required under Sections 7-101 and 7-204A of the Act.

E. Approval of Accounting Entries, If Necessary

The Joint Applicants seek Commission approval of the proposed accounting entries, if necessary, associated with the Reorganization. The proposed entries are discussed in the testimony of Mr. Scott Lauber (Joint Applicants Ex. 2.0).

F. Certain Other Approvals

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

IV. SUBMISSION OF REQUIRED INFORMATION AND DIRECT TESTIMONY

Along with this Application, the Joint Applicants supply the documents and information required by Section 7-204A of the Act. Such information is provided either as attachments to the direct testimony identified below or in Attachment A to this Application. In addition, the Joint Applicants are submitting the direct testimony of the following witnesses:

- Allen Leverett, President, Wisconsin Energy Corporation
- Scott Lauber, Vice President and Treasurer, Wisconsin Energy Corporation
- John Reed, Chairman and Chief Executive Officer, Concentric Energy Advisors, Inc.
- James Schott, Executive Vice President and Chief Financial Officer, Integrys Energy Group, Inc.

V. NOTICES

The Joint 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. All notices and communications regarding this Application should be addressed to:

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

Dated: August 6, 2014

Respectfully Submitted,

WISCONSIN ENERGY CORPORATION

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PEOPLES ENERGY, LLC
THE PEOPLES GAS LIGHT AND COKE
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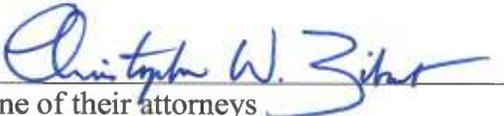
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By: 
One of their attorneys

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VERIFICATION

I, Allen L. Leverett, being first duly sworn, depose and state that I am the President of Wisconsin Energy Corporation, that I have read the foregoing Application for approval of a reorganization, and know the contents thereof, and that the statements contained therein are true and correct to the best of my knowledge, information, and belief.

Allen L. Leverett

Allen L. Leverett

Subscribed and sworn to before me
this 4th day of August, 2014.

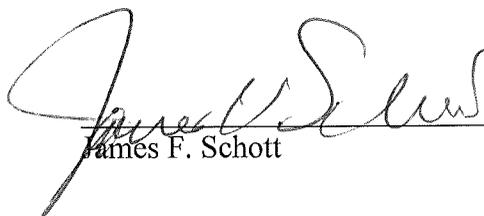
Cindy L. Trenier

Notary Public
My Commission expires March 6, 2016

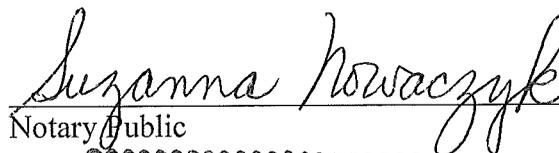


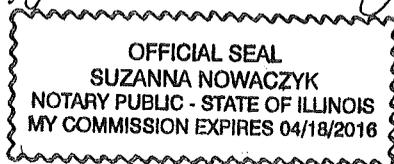
VERIFICATION

I, James F. Schott, being first duly sworn, depose and state that I am the Executive Vice President and Chief Financial Officer of Integrys Energy Group, Inc., the parent company of Peoples Energy, LLC, The Peoples Gas Light and Coke Company, and North Shore Gas Company, that I have read the foregoing Application for approval of a reorganization, and know the contents thereof, and that the statements contained therein are true and correct to the best of my knowledge, information, and belief, provided that as to information and materials supplied by companies other than Integrys companies my verification is on information and belief.


James F. Schott

Subscribed and sworn to before me
this 6th day of August, 2014.


Notary Public



VERIFICATION

I, Nathan E. DeBaun, being first duly sworn, depose and state that I am the Assistant Secretary of American Transmission Company LLC, that I have read the foregoing Application for approval of a reorganization, and know the contents thereof, and that the statements contained therein are true and correct to the best of my knowledge, information, and belief.



Nathan E. DeBaun

Subscribed and sworn to before me
this day of August, 2014.




Notary Public MSO
My Commission Expires 11/09/14