

**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-\_\_\_\_\_

Direct Testimony of

**ALLEN L. LEVERETT**

President – Wisconsin Energy Corporation

On Behalf of

Wisconsin Energy Corporation

**TABLE OF CONTENTS**

**I. INTRODUCTION AND BACKGROUND ..... 1**

**A. Witness Identification..... 1**

**B. Purpose of Testimony ..... 1**

**C. Summary of Conclusions..... 2**

**D. Itemized Attachments to Direct Testimony ..... 3**

**E. Background and Experience ..... 3**

**II. OVERVIEW OF WISCONSIN ENERGY ..... 4**

**III. OVERVIEW OF ATC ..... 10**

**IV. SUMMARY OF PROPOSED REORGANIZATION ..... 10**

**V. WISCONSIN ENERGY’S COMMITMENTS..... 15**

**A. Peoples Gas and North Shore to Continue In Present Form ..... 16**

**B. Union Contracts, Employment Levels and Training..... 17**

**C. Accelerated Main Replacement Program..... 18**

**D. Supplier Diversity ..... 20**

**E. No Base Rate Increase For Two Years After Closing ..... 21**

**F. No Recovery of Acquisition Premium or Costs of the Reorganization..... 22**

**G. Energy Efficiency Programs ..... 22**

**H. Community Involvement and Charitable Giving ..... 23**

**I. Illinois Board Member ..... 23**

**VI. OTHER REGULATORY APPROVALS..... 24**

**VII. WITNESS TOPICS ..... 27**

**VIII. CONCLUSION ..... 29**

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

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

4 A. My name is Allen L. Leverett. My business address is Wisconsin Energy Corporation,  
5 231 West Michigan Street, Milwaukee, Wisconsin 53203.

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

7 A. I am the President of Wisconsin Energy Corporation (“Wisconsin Energy”).

8 **Q. What are your duties in your position as President of Wisconsin Energy?**

9 A. I have overall responsibility for Wisconsin Energy’s electric generation portfolio, fuel  
10 procurement, environmental compliance and renewable energy development strategy. I  
11 also serve on the board of directors of ATC Management Inc. (“ATCM”), which is the  
12 corporate manager of American Transmission Company LLC (“ATC”), and have  
13 responsibility for the oversight of Wisconsin Energy’s investment in ATC. Together  
14 with Wisconsin Energy’s Chief Executive Officer, I set overall direction and strategy for  
15 Wisconsin Energy.

16 **B. Purpose of Testimony**

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

18 A. My direct testimony will: (1) provide an overview of Wisconsin Energy and ATC, the  
19 transaction whereby Wisconsin Energy will acquire Integrys Energy Group, Inc. (the  
20 “Transaction”); (2) discuss how the Transaction will impact The Peoples Gas Light and  
21 Coke Company (“Peoples Gas”), North Shore Gas Company (“North Shore”) and ATC  
22 (the “Reorganization”); (3) address the commitments Wisconsin Energy is making as part

23 of the Reorganization; (4) summarize the other regulatory approvals that are being sought  
24 in connection with the Transaction; and (5) provide a summary of the other witnesses  
25 submitting direct testimony in support of the application for approval of the  
26 Reorganization.

27 **C. Summary of Conclusions**

28 **Q. Please summarize the conclusions of your direct testimony.**

29 A. The Reorganization will result in a financially strong company that is committed to  
30 providing a high level of service to customers and continued infrastructure  
31 improvements. From the customers' perspective, the Reorganization will be seamless.  
32 There will be no change in who delivers their gas service, no change in where or who  
33 they call for assistance with that service, and no change in what they pay for their gas  
34 service as a result of the Reorganization. Peoples Gas and North Shore (collectively, the  
35 "Gas Companies") will not change their names and will remain operationally  
36 headquartered in Chicago and Waukegan, respectively. They will remain separate,  
37 Illinois utilities providing adequate, reliable, efficient, safe and least-cost service to the  
38 communities they serve.

39 As discussed herein, to ensure that the Gas Companies' customers are provided  
40 with safe, reliable, and affordable service, Wisconsin Energy commits, among other  
41 things, that after the conclusion of the Gas Companies' currently-pending rate cases  
42 expected at the beginning of 2015, the Gas Companies will not to seek a change in their  
43 base rates that would become effective earlier than two years after the Transaction closes.  
44 Wisconsin Energy also commits to maintain at least 1,953 full-time equivalent ("FTE")  
45 employee positions in the State of Illinois for two years after the closing of the

46 Transaction, to honor union contracts, to maintain civic and charitable participation, to  
47 have an Illinois-based individual join the WEC Energy Group board, and to continue  
48 Peoples Gas' Accelerated Main Replacement Program. Further, the Commission should  
49 approve the Reorganization as to ATC, because it will have no material impact on end-  
50 use customers, competition or the Commission's regulatory authority with respect to  
51 ATC.

52 Through the testimony and information presented in support of their Application,  
53 Wisconsin Energy and the other Joint Applicants have provided the Illinois Commerce  
54 Commission (the "Commission") with the information necessary to conclude that the  
55 Reorganization will not adversely affect the Gas Companies' or ATC's duties under the  
56 Illinois Public Utilities Act (the "Act"), as well as to make the required findings under  
57 Sections 7-204(b)(1) – (b)(7) and 7-204(c) of the Act to approve the Reorganization.

58 **D. Itemized Attachments to Direct Testimony**

59 **Q. Are you sponsoring any exhibits with your direct testimony?**

60 A. Yes. I have attached the following exhibits to my testimony:

- 61 • Agreement and Plan of Merger dated June 22, 2014 (the "Merger Agreement"),  
62 attached as Joint Applicants Exhibit ("Ex.") 1.1;
- 63 • Diagram of existing Wisconsin Energy organizational structure, attached as Joint  
64 Applicants Ex. 1.2; and
- 65 • Diagram of post-closing structure, attached as Joint Applicants Ex. 1.3;

66 **E. Background and Experience**

67 **Q. Please describe your educational and business experience.**

68 A. I received a bachelor's degree, summa cum laude, in electrical engineering and  
69 mathematics from Vanderbilt University. I then earned a master's degree from Stanford  
70 University in electrical engineering and a Master of Business Administration degree from  
71 Auburn University. In 1988, I joined Southern Company Services, and held a variety of  
72 positions in transmission planning, integrated resource planning, strategic planning,  
73 wholesale marketing, and finance. In 1997, I became vice president and treasurer of  
74 Southern Company Services with overall responsibility for financial planning and  
75 analysis, capital markets and leasing, treasury and investor relations. I then joined  
76 Georgia Power in 2001 to serve as Chief Financial Officer and Executive Vice President.  
77 In 2003, I joined Wisconsin Energy as Chief Financial Officer, and was named Executive  
78 Vice President and Chief Financial Officer of Wisconsin Energy and We Energies in  
79 May 2004. In March 2011, I was named President and Chief Executive Officer of We  
80 Generation. Most recently, in August 2013, I was appointed to be President of Wisconsin  
81 Energy.

82 **II. OVERVIEW OF WISCONSIN ENERGY**

83 **Q. Please provide the Commission with an overview of Wisconsin Energy.**

84 A. Wisconsin Energy is a holding company with a number of wholly owned subsidiaries.  
85 In fiscal 2013, Wisconsin Energy had operating revenues of approximately \$4.5 billion,  
86 net income of approximately \$577.4 million, and employed approximately 4,300 people.  
87 Through its subsidiary utilities, Wisconsin Electric Power Company ("WEPCO") and  
88 Wisconsin Gas LLC ("WG") (both doing business as "We Energies"), Wisconsin Energy  
89 serves 1.1 million electric customers and 1.1 million natural gas customers throughout  
90 Wisconsin and the Upper Peninsula of Michigan. Wisconsin Energy's utility assets

91 include 20,967 miles of gas transmission and distribution lines, 6,021 MW of electric  
92 generation capacity, and 45,597 miles of electric distribution lines.

93 While Wisconsin Energy, the holding company, was formed in 1987, its  
94 predecessor companies have a history that dates back over 100 years. The Milwaukee  
95 Electric Railway and Light Company (“MERL Company”) was formed in 1896 to  
96 provide electric, steam and interurban rail service in a service area covering more than  
97 12,000 square miles. In 1938, the MERL Company changed its name to Wisconsin  
98 Electric Power Company, and over the years it has grown organically by investing in  
99 assets to serve its customers and by acquiring smaller utility businesses, including  
100 Wisconsin Gas & Electric (1941), Wisconsin Michigan Power Co. (1941), Wisconsin  
101 Southern Gas Co. (1994), and ESELCO/Edison Sault Electric (1998).<sup>1</sup> In 2000,  
102 Wisconsin Energy acquired WICOR, a Wisconsin public utility holding company,  
103 including WICOR's subsidiary Wisconsin Gas. A diagram of the current corporate  
104 organizational structure of Wisconsin Energy is attached to my testimony as Joint  
105 Applicants Ex. 1.2,

106 Throughout its history, Wisconsin Energy and its affiliates have taken very  
107 seriously their responsibilities to stakeholders and their obligation to be good corporate  
108 citizens. This commitment has been widely recognized, most recently by the following:

- 109 • In 2014, *BizTimes* presented Wisconsin Energy with its  
110 Regional Spirit Award for the company's long history of  
111 commitment to the Milwaukee region.

---

<sup>1</sup> In 2010, Edison Sault was sold to Michigan-based Cloverland Electric Cooperative.

- 112 • In 2014, *Corporate Responsibility* magazine recognized  
113 Wisconsin Energy as one of the 100 best corporate citizens in  
114 the United States for the seventh consecutive year based on  
115 environmental performance, employee relations, philanthropy,  
116 finance and governance.
- 117 • For 2013, PA Consulting Group presented WEPCO with its  
118 ReliabilityOne™ National Reliability Excellence Award,  
119 recognizing the company as the most reliable electric utility in  
120 America. In addition, for the ninth time in twelve years  
121 WEPCO received PA’s ReliabilityOne™ Award for leading  
122 the Midwest region in electric reliability performance.
- 123 • For 2013, J.D. Power ranked WEPCO second in the Midwest  
124 region for overall residential electric customer satisfaction  
125 (considering price, communications and customer service,  
126 corporate citizenship, billing and payment, and power quality  
127 and reliability).
- 128 • For 2013, J.D. Power ranked WEPCO highest among large  
129 utilities in the Midwest region for overall business electric  
130 customer satisfaction (considering price, communications and  
131 customer service, corporate citizenship, billing and payment,  
132 and power quality and reliability).

133 **Q. What is Wisconsin Energy’s record with respect to customer service?**

134 A. As indicated by the accolades noted above, Wisconsin Energy is strongly committed to  
135 providing a high-level of customer service to its customers, and continuously is working  
136 to maintain and, where possible, improve on its performance. This dedication to  
137 customer service has resulted in Wisconsin Energy consistently receiving high customer  
138 satisfaction ratings from third-party evaluators, such as J.D. Power.

139 **Q. What is Wisconsin Energy’s record with respect to employee safety?**

140 A. Wisconsin Energy is dedicated to the safety of its employees. We track a number of  
141 leading and lagging safety indicators to measure our safety performance. As an example,  
142 over the last decade recordable incidents and lost-time accidents for our employees have  
143 decreased by 70%. However, our goal will always be to have zero incidents. Setting  
144 increasingly stringent safety goals each year and carefully studying incidents as they  
145 occur is part of our improvement process, but we have come to recognize that employee  
146 engagement with safety is the most important determinant of safety performance. We  
147 strive to create an environment where employees are comfortable with and feel obligated  
148 to give safety input to each other on the job. Along these lines this year in concert with all  
149 of the unions that represent our employees we developed programs that are directed and  
150 in a sense owned by the unions. These programs involve the designation of employees  
151 that are highly experienced to focus on work practices and job site safety observations.  
152 Other employees can give safety feedback to each other and receive feedback on a  
153 confidential basis from these designated employees. Results are fed back to management  
154 on a confidential basis but with enough detail to allow the rest of the organization to take  
155 advantage of lessons learned.

156 **Q. What is Wisconsin Energy’s record with respect to natural gas safety?**

157 A. As well as being dedicated to the safety of our employees we are also highly focused on  
158 the safety of our customers and other members of the public. We have addressed natural  
159 gas safety with a compliance program that has received successful audits from both the  
160 Wisconsin and Michigan commissions. The program includes the following areas:

- 161 • Integrity Management Programs – these are focused on both gas distribution  
162 and gas transmission piping.
- 163 • Control Room Management – focused on monitoring and operating the gas  
164 system
- 165 • Coordinated gas safety communications program
- 166 • Monitoring and evaluating developing regulation, industry notification and  
167 operating best practices.

168 Through the integrity management programs we have invested \$470 million since 2008  
169 to replace 900 miles of plastic and steel mains, 68,000 individual gas distribution lines,  
170 and 150,000 meter sets. Between 2014 and 2018 we plan on investing an another \$600  
171 million to replace 1,100 miles of plastic and steel mains, 83,000 individual gas  
172 distribution lines, and 233,000 meter sets. We have an ongoing program to relocate  
173 meters from inside to outside facilities. With about 60,000 services remaining, this  
174 program is schedule to be completed in 2018. At this point we have replaced all mains  
175 that were constructed from cast iron, bare steel, epoxy reinforced fiberglass (EFG), or  
176 polyvinylchloride (PVC).

177 **Q. What is Wisconsin Energy’s history with respect to promoting supplier diversity?**

178 A. Wisconsin Energy is committed to seeking diversity among its suppliers and vendors.  
179 Wisconsin Energy has a supplier diversity initiative (“SDI”) that is linked to company  
180 performance goals, integrated into its corporate strategies and directed by senior  
181 management. Our portfolio of diverse vendors include minority business enterprises,  
182 women-owned business enterprises, service disabled veteran-owned business and  
183 veteran-owned businesses. Wisconsin Energy has a dedicated leadership position to  
184 oversee the day-to-day operation and planning of its SDI. The activities Wisconsin  
185 Energy undertakes as part of the SDI include conducting quarterly meetings with supplier  
186 diversity liaisons from different departments, delivering monthly performance reports to  
187 senior executives, hosting an annual supplier diversity symposium for diverse businesses  
188 to introduce their products and services to the company, facilitating matchmaker  
189 meetings to introduce diverse businesses to company decision makers, and making a  
190 database of certified diverse businesses available to its supply chain. Further, Wisconsin  
191 Energy actively participates in several minority and women business advocacy  
192 organizations, including the National Minority Supplier Development Council, the  
193 Chicago Minority Supplier Development Council, the Women’s Business Development  
194 Center – Chicago, and the African American Chamber of Commerce – Greater  
195 Milwaukee. Wisconsin Energy has received recognition for its SDI efforts, including  
196 receiving the Edison Electric Institute’s Supplier Diversity Innovation Award and Vendor  
197 Opportunity Award in 2010, and the Milwaukee Urban League Spirit of Diversity Award  
198 in 2009. Most importantly, Wisconsin Energy’s SDI has produced results. We have  
199 consistently increased spending with diverse suppliers. Spending with these suppliers

200 increased from \$17.6 million in 2006 to \$84.1 million in 2013, and in the first five  
201 months of 2014 the company spent \$45.2 million with these suppliers.

202 **III. OVERVIEW OF ATC**

203 **Q. Please provide the Commission with an overview of ATC.**

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

211 ATC is an Illinois public utility that owns and operates two 345 kV transmission  
212 lines and associated facilities, each less than two miles in length, that interconnect with  
213 the 345 kV system of Commonwealth Edison Company, as well as a 69 kV transmission  
214 line and associated facilities that form a nine-mile loop in Winnebago County and serves  
215 four distribution substations. Order, Docket 01-0142 (Jan. 23, 2003); Order, Docket 11-  
216 0661 (April 10, 2012). ATC does not charge any retail rates to Illinois end-user  
217 customers, or have any retail customers in Illinois. ATC’s transmission service rates are  
218 regulated exclusively by the Federal Energy Regulatory Commission (“FERC”).

219 **IV. SUMMARY OF PROPOSED REORGANIZATION**

220 **Q. Please summarize the terms and structure of the Transaction contained in the**  
221 **Merger Agreement?**

222 A. The Transaction will create WEC Energy Group, Inc. ("WEC Energy Group"), which  
223 will be a leading natural gas and electric utility in the Midwest, that will serve more than  
224 four million customers across four states, position the combined entity for continued  
225 growth from regulated operations, capitalize over time on efficiencies of scale, facilitate  
226 investment in needed utility infrastructure, and unite two leaders in reliability and  
227 customer satisfaction. The regulated energy utilities of the resulting WEC Energy Group  
228 are projected to have a regulated rate base of nearly \$17 billion in 2015, serve more than  
229 4.3 million total gas and electric customers across Illinois, Wisconsin, Michigan, and  
230 Minnesota, and operate more than 44,000 miles of gas transmission and distribution lines  
231 and nearly 71,000 miles of electric distribution lines.<sup>2</sup>

232 Following unanimous approvals by their respective boards of directors, Wisconsin  
233 Energy and Integrys entered into the Merger Agreement, a copy of which is attached  
234 hereto as Joint Applicants Ex. 1.1, whereby Wisconsin Energy will acquire 100% of the  
235 outstanding common stock of Integrys. Pursuant to the terms of the Merger Agreement,  
236 Integrys shareholders will receive 1.128 Wisconsin Energy shares plus \$18.58 in cash for  
237 each Integrys share. Total consideration was valued on June 20, 2014 at \$71.47 per  
238 Integrys share, with a consideration mix of 74 percent stock and 26 percent cash. This  
239 represents a 17.3% premium to Integrys' closing price on June 20, 2014, and a 22.8%  
240 premium to the volume-weighted average share price over the 30 trading days ending  
241 June 20, 2014. The transaction will be financed by issuing new Wisconsin Energy stock  
242 and by Wisconsin Energy issuing approximately \$1.5 billion in acquisition debt, likely in  
243 the form of intermediate and long-term debt. Upon closing of the transaction, Integrys

---

<sup>2</sup> The combined company will be the 14th largest utility company in the United States in terms of market value, the 8th largest natural gas utility in terms of customers, and the 15th largest utility in terms of combined electric and gas customers.

244 shareholders will own approximately 28% of the combined company. The overall value  
245 of the transaction is approximately \$9.1 billion, with \$5.8 billion for Integrys shares and  
246 \$3.3 billion of assumed Integrys debt.

247 Integrys will effectively become a subsidiary of WEC Energy Group, just like  
248 Wisconsin Electric and Wisconsin Gas are subsidiaries of Wisconsin Energy today. At  
249 closing, the current Integrys holding company will merge with a subsidiary Wisconsin  
250 Energy will create, and Integrys will be the surviving company in that merger. Integrys  
251 will then merge into a second subsidiary created by Wisconsin Energy, with the second  
252 subsidiary surviving after than merger. The surviving entity, which will be labeled the  
253 “Subsequent Merger Subsidiary,” will be a subsidiary of WEC Energy Group. This  
254 “Subsequent Merger Subsidiary” will stand in the shoes of Integrys, and will have all of  
255 the then-current Integrys utility and non-utility subsidiaries under it. The corporate status  
256 and names of the Gas Companies will be unchanged. Each will continue to operate as an  
257 Illinois public utility, and each will remain subject to Commission jurisdiction and  
258 applicable law and regulations.

259 Attached as Joint Applicants’ Exhibit 1.3 is a diagram showing the structure of  
260 WEC Energy Group that will exist after the Transaction is financially closed and the  
261 Reorganization completed.

262 **Q. What effect will the Reorganization have on ATC?**

263 A. As a result of the Reorganization, Wisconsin Energy will gain a majority ownership  
264 interest in ATC. Currently, Integrys owns 34.07% of the outstanding shares of ATC’s  
265 manager, ATCM, and Wisconsin Energy owns 26.24%. Following the Reorganization,  
266 Wisconsin Energy will own 60.31% of the outstanding shares of ATCM.

267 Wisconsin Energy and Integrys value the independent and collaborative work  
268 ATC has done to plan and manage its transmission network and do not desire to unduly  
269 influence the management, planning and operation of ATC. Therefore, with certain  
270 exceptions, Wisconsin Energy will commit that following the close of the Transaction,  
271 for all matters requiring a vote of ATCM's shares, WEC Energy Group will vote 34.07%  
272 of ATCM's shares (i.e. the equivalent of Integrys's current ownership). The remaining  
273 ATCM shares will effectively be voted by the non-Wisconsin Energy/non-Integrys  
274 owners. Importantly, WEC Energy Group will vote only 34.07% of ATCM's shares  
275 during elections of directors of ATCM, thereby eliminating any danger of ATCM being  
276 seen as somehow "captive" to WEC Energy Group. Therefore, WEC Energy Group will  
277 have the same influence on ATC's management, operations and planning that Integrys  
278 does today, and control of ATC will be more distributed after the Transaction than it is  
279 today.

280 As for the exceptions I noted, WEC Energy Group will propose to the FERC that  
281 it retain its full voting power with respect to certain fundamental corporate matters,  
282 including: (1) a sale of all or substantially all of the assets of ATC; (2) a change in  
283 control of ATC or ATCM; (3) bankruptcy; (4) an initial public offering; (5) the merger or  
284 consolidation of ATC with, or a proposal to acquire all or substantially all of the assets  
285 of, another company; and (6) any proposal to amend ATC's or ATCM's governing  
286 documents that would reduce WEC Energy Group's rights as a member or shareholder.  
287 WEC Energy Group will not use its full ownership interest to initiate any of these or  
288 similar actions, but will only act to protect and preserve its expanded economic interest in  
289 ATC if any such actions are initiated by others.

290 **Q. Has the Transaction been approved by both Wisconsin Energy and Integrys?**

291 A. The Boards of Directors of both Wisconsin Energy and Integrys have approved the  
292 Merger Agreement. The Integrys shareholders must vote on whether to approve the  
293 Transaction and the Wisconsin Energy shareholders must vote on whether to authorize  
294 the issuance of new stock to exchange for Integrys' stock. Shareholders of both  
295 companies are expected to vote before the end of 2014.

296 **Q. When does Wisconsin Energy expect the Transaction to close?**

297 A. Under the terms of the Merger Agreement, the Transaction will financially close when  
298 certain conditions have been satisfied, including obtaining shareholder approvals and all  
299 the necessary statutory approvals, such as the Commission's approval of the  
300 Reorganization being sought in this proceeding. It is expected that the closing will not  
301 occur until July 2015 at the earliest.

302 **Q. Why did Wisconsin Energy decide to acquire Integrys?**

303 A. One of the main drivers behind Wisconsin Energy's decision to acquire Integrys is that  
304 the Reorganization will result in a combined company with strong cash flow that can be  
305 prudently invested in needed energy infrastructure. The increase in scale will help  
306 increase liquidity and ultimately reduce the cost of capital for the combined company,  
307 WEC Energy Group.

308 Another reason is the complementary nature of the two companies. The service  
309 territories served by Wisconsin Energy's and Integrys' utilities have a complementary  
310 geographic fit and compatible mix of operations. Wisconsin Energy and Integrys both  
311 provide natural gas and electric distribution service, as well as operate electric generating  
312 facilities. Both companies are committed to safety, reliability, and customer satisfaction.

313 Further, both companies have cultures of giving back to their communities through  
314 volunteerism and financial support.

315 In sum, Wisconsin Energy believes the Reorganization will result in a larger,  
316 more diversified, financially strong energy company that, over time, may generate  
317 benefits from its increased scale of operations.

318 **V. WISCONSIN ENERGY'S COMMITMENTS**

319 **Q. What commitments has Wisconsin Energy made to ensure that the Gas Companies'**  
320 **customers continue to receive adequate, reliable, efficient, safe and least-cost service**  
321 **from Peoples Gas and North Shore?**

322 A. Wisconsin Energy's commitment as a utility operator is to provide high quality, safe and  
323 reliable service to our customers with competitive pricing. Wisconsin Energy is  
324 committed to applying industry best practices in its gas and electric distribution utilities,  
325 and it intends for that commitment to carry through to the Gas Companies after the  
326 Reorganization is closed. Further, as a result of a series of meetings with stakeholders in  
327 Illinois following the announcement of the Reorganization, including the Commission,  
328 the Illinois Attorney General's office, the City of Chicago, and the Citizens Utility Board,  
329 among others, Wisconsin Energy has gained a greater perspective on the needs of the  
330 customers and communities served by Peoples Gas and North Shore. Based on the  
331 information provided by these stakeholders, WEC Energy Group is prepared to provide  
332 immediate benefits to customers and the Illinois communities the Gas Companies serve  
333 by making commitments that it would accept as conditions on the Commission's  
334 approval of the Reorganization. In my testimony below, I will provide an overview of  
335 these commitments, which will ensure that the Gas Companies' customers continue to

336 receive adequate, reliable, efficient, safe and least-cost service from Peoples Gas and  
337 North Shore.

338 **A. Peoples Gas and North Shore to Continue In Present Form**

339 **Q. What is Wisconsin Energy's intentions with respect to the form of Peoples Gas and**  
340 **North Shore after the Reorganization closes?**

341 A. The Transaction between Wisconsin Energy and Integrys will not result in any change to  
342 the corporate form or status of Peoples Gas or North Shore. Nor will their names change.  
343 The Gas Companies will remain separate Illinois public utilities regulated by the  
344 Commission, and remain subject to all applicable laws, regulations, rules, decisions, and  
345 policies governing the regulation of public utilities in Illinois. Further, the  
346 Reorganization will not result in the transfer of any of the assets or property of the Gas  
347 Companies.

348 Indeed, from the perspective of the customers, the Reorganization will be seamless.  
349 Peoples Gas' and North Shore's local operational headquarters will remain where they  
350 are located now in downtown Chicago and Waukegan, respectively. Customers will  
351 continue to receive high-quality, adequate, safe, and reliable gas service just as they did  
352 before the Reorganization, and, as discussed below, at the same cost as they would have  
353 absent the Reorganization. When in need of assistance or customer service, customers  
354 will be able to interact with the Gas Companies just as they did before the Reorganization  
355 (*i.e.*, using the same customer service numbers, same mailing address, etc.). The bottom  
356 line is that the Reorganization will have no adverse impact whatsoever with respect to the  
357 Gas Companies' customers. Indeed, as further discussed herein and in the testimony of

358 Mr. John Reed (Joint Applicants Ex. 3.0), the Reorganization will create a more  
359 financially secure company, which will result in benefits for customers.

360 **B. Union Contracts, Employment Levels and Training**

361 **Q. What is Wisconsin Energy's intentions with respect to the Gas Companies' existing**  
362 **labor agreements?**

363 A. Wisconsin Energy will honor the Gas Companies' existing agreements with their labor  
364 unions.

365 **Q. Does Wisconsin Energy expect to implement any large-scale layoffs after the**  
366 **Reorganization closes?**

367 A. No. Many corporate transactions are motivated by a belief that consolidation can result  
368 in large, quickly-achieved cost savings. The source of such large, quickly-achieved cost  
369 savings is often massive reductions in employee headcount. This Transaction does not fit  
370 that mold. The Reorganization is primarily motivated by, and makes business sense  
371 based on, the fact that it results in a combined company with strong cash flows that can  
372 be prudently invested in needed energy infrastructure. The Gas Companies' employees  
373 will benefit by becoming part of an organization that is better equipped to maintain its  
374 independence and cost effectiveness in the rapidly changing energy business. In order to  
375 minimize disruption and ensure a deliberate transition to combined operations,  
376 Wisconsin Energy is not planning the sort of reduction in force that occurs in many  
377 corporate consolidations. To the contrary, the vast majority of any reductions in  
378 employee headcount are expected to occur over time through attrition – *i.e.*, voluntary  
379 decisions by employees to leave the company, such as retirements and voluntary  
380 departures.

381 **Q. Is Wisconsin Energy making any commitments with respect to employment levels**  
382 **and training in Illinois after the Reorganization is closed?**

383 A. Yes. Wisconsin Energy will agree to maintain at least 1,953 FTE employee positions in  
384 Illinois for two years after the closing of the Transaction.<sup>3</sup> Also for two years after the  
385 closing of the Transaction, Wisconsin Energy agrees to maintain all of the Gas  
386 Companies' existing training programs, including those designed to ensure compliance  
387 with pipeline safety requirements in their current format. Additionally during the same  
388 time period, the Gas Companies will maintain their commitments to the gas workers  
389 degreed training program developed in partnership with the City Colleges of Chicago and  
390 the UWUA Power for America Training Trust Fund at the Dawson Technical Institute of  
391 Chicago. These commitments will help ensure that after the Reorganization, the Gas  
392 Companies will continue to provide a high-level of service that is adequate, reliable,  
393 efficient and safe.

394 **C. Accelerated Main Replacement Program**

395 **Q. What is Wisconsin Energy's understanding of Peoples Gas' Accelerated Main**  
396 **Replacement Program ("AMRP")?**

397 A. The AMRP is a 20-year program pursuant to which Peoples Gas plans to complete the  
398 replacement of its cast-iron and ductile-iron gas mains and service pipes, as well as  
399 upgrade its distribution system from a low pressure system to a medium pressure system  
400 and relocate gas meters from inside customer facilities to outside, by 2030.

---

<sup>3</sup> 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.

401 **Q. What is Wisconsin Energy’s intention with respect to the AMRP after the**  
402 **Reorganization closes ?**

403 A. Wisconsin Energy is committed to having Peoples Gas continue the AMRP assuming that  
404 the legislatively-authorized rider – Rider QIP – remains in effect pursuant to the terms of  
405 Section 9-220.3 of the Act to allow automatic recovery on AMRP investments up to a  
406 certain percentage cap of Peoples Gas’ base rate revenues each year, as well as WEC  
407 Energy Group and Peoples Gas remaining financially capable of doing so. The financial  
408 capability of WEC Energy Group and Peoples Gas to continue the AMRP will depend on  
409 Peoples Gas being able to obtain timely changes in its base rates to allow the Rider QIP  
410 cap to be reset and the investments made added to Peoples Gas’ rate base.

411 **Q. Does Wisconsin Energy have experience with similar, large-scale infrastructure**  
412 **improvement projects that will enable it to efficiently and effectively manage the**  
413 **AMRP?**

414 A. Yes. Wisconsin Energy is experienced with successfully implementing and managing  
415 large infrastructure improvement projects. Between 2003 and 2013, Wisconsin Energy  
416 invested \$9.1 billion to keep its gas and electricity equipment and facilities updated and  
417 in compliance with regulatory standards. These investments included \$5.5 billion on new  
418 generation and generation upgrades, including environmental upgrades, \$3.1 billion on  
419 gas and electric distribution projects, and \$500 million on customer service and corporate  
420 support. In 2012, Wisconsin Energy announced plans to invest up to an additional \$3.5  
421 billion in infrastructure upgrades and renewable energy projects. Wisconsin Energy’s  
422 infrastructure investments have included a project to replace cast iron or bare steel main  
423 and legacy plastic gas pipes in the City of Milwaukee. Since 2008, Wisconsin Energy

424 has spent \$470 million to replace 900 miles of vintage plastic and steel gas mains, 68,000  
425 individual gas distribution lines, and 150,000 meter sets. Going forward Wisconsin  
426 Energy's capital budget calls for investing \$600 million over the period 2014 through  
427 2018 to replace an additional 1,100 miles of vintage plastic and steel gas mains, 83,000  
428 individual gas distribution lines, and 233,000 meter sets in a further commitment to the  
429 building blocks of our natural gas delivery business in Wisconsin.

430 **Q. What is Wisconsin Energy's intentions with respect to responding to the audit of the**  
431 **AMRP being conducted by the Commission pursuant to its final Order in ICC**  
432 **Docket Nos. 12-0511/12-0512 cons.?**

433 A. When the results of the Commission's audit of Peoples Gas' AMRP are made available,  
434 WEC Energy Group will carefully review those results and, after closing, ensure that  
435 Peoples Gas will work to coordinate with the City of Chicago in the execution of the  
436 AMRP.

437 **D. Supplier Diversity**

438 **Q. Will Wisconsin Energy apply its Supplier Diversity Initiative to the Operations of**  
439 **the Gas Companies?**

440 A. Yes, it will. Wisconsin Energy has had its SDI in place for approximately ten years. As I  
441 discussed earlier in my testimony, the SDI is linked to company performance goals,  
442 integrated into its corporate strategies, and directed by senior management. The  
443 Reorganization will bring the SDI to the operations of the Gas Companies in and around  
444 Chicago.

445 **E. No Base Rate Increase For Two Years After Closing**

446 **Q. Does Wisconsin Energy plan to make any commitments with respect to seeking**  
447 **future general base rate increases for the Gas Companies?**

448 A. Yes. Wisconsin Energy is sensitive to the concern that the Reorganization could affect  
449 rates, and, therefore, commits that there will be no immediate impact on the rates that the  
450 Gas Companies' customers pay for their service as a result of the Reorganization. The  
451 Gas Companies have pending rate cases in ICC Docket Nos. 14-0224/14-0225 (cons.)  
452 that should result in new rates going into effect on or before February 1, 2015. The Gas  
453 Companies will proceed with those pending rate cases, but Wisconsin Energy commits  
454 that any further requests to change their base rates would not become effective any earlier  
455 than two years after the Transaction closes. This will result in the Gas Companies' base  
456 rates remaining unchanged for two and a half years or so after they are approved by the  
457 Commission, given that the closing of the Transaction is not expected to occur earlier  
458 than July 2015. This commitment is contingent on all of the Gas Companies' riders and  
459 automatic adjustment clauses in effect at the time the Commission enters its final Order  
460 in ICC Docket Nos. 14-0224/14-0225 (cons.), including but not limited to Rider QIP,  
461 remaining in effect during that time period.<sup>4</sup> In addition, the Gas Companies would  
462 retain the right to request that the Commission waive this base rate limitation if the  
463 financial integrity of Peoples Gas and/or North Shore is jeopardized to the extent of  
464 negatively affecting customers.

---

<sup>4</sup> While this commitment is not contingent on Rider VBA being affirmed by the Supreme Court of Illinois in the pending appeal of that rider by the Attorney General and Citizens Utility Board, the Joint Applicants do reserve the right for the Gas Companies to seek a revenue neutral modification of their rate designs in the event that the Supreme Court of Illinois reverses the Commission's approval of Rider VBA.

465 **F. No Recovery of Acquisition Premium or Costs of the Reorganization**

466 **Q. Part of the Merger Agreement provides for an acquisition premium. Does**  
467 **Wisconsin Energy intend to seek the recovery of the costs for the acquisition**  
468 **premium in rates?**

469 A. No. It is common in transactions of this nature for the acquiring company to pay an  
470 “acquisition premium,” that is, to pay a price for the acquired company that exceeds the  
471 latter’s book value and represents the latter’s value as a going concern. Wisconsin  
472 Energy will not seek the inclusion of any portion of the acquisition premium in the Gas  
473 Companies’ rate bases, nor the amortization of the premium in future cost of service  
474 determinations.

475 **Q. Does Wisconsin Energy intend to seek recovery from customers for the costs**  
476 **incurred to accomplish the Reorganization (i.e., Transaction, Change in Control,**  
477 **Financing and Legal/Other Professional costs)?**

478 A. No. As in the conditions approved by the Commission in ICC Docket No. 11-0046,  
479 Wisconsin Energy commits that it will not seek the recovery of the costs incurred to  
480 accomplish the Reorganization from customers.

481 **G. Energy Efficiency Programs**

482 **Q. What are Wisconsin Energy’s intentions with respect to the Gas Companies existing**  
483 **energy efficiency programs?**

484 A. WEC Energy Group will be committed to ensuring that, at a minimum, the Gas  
485 Companies comply with their obligations pursuant to the energy efficiency provisions of  
486 the Act. However, the Gas Companies’ customers and a number of Illinois stakeholders  
487 seek innovative ways to conserve energy and use it more efficiently. Accordingly,

488 Wisconsin Energy commits that WEC Energy Group will work with interested  
489 stakeholders to develop recommendations for changes to the Gas Companies' existing  
490 energy efficiency programs.

491 **H. Community Involvement and Charitable Giving**

492 **Q. What are Wisconsin Energy's intentions with respect to the Gas Companies'**  
493 **existing commitments to community and charitable causes?**

494 A. Wisconsin Energy, like Integrys, has a strong tradition of service and commitment to the  
495 communities it serves, supporting a variety of civic, community, and philanthropic  
496 efforts. Wisconsin Energy is fully committed to the Gas Companies continuing their  
497 traditions of service and community involvement after the Reorganization closes.  
498 Wisconsin Energy commits to honoring the Gas Companies' existing philanthropic  
499 pledges, and thoughtfully considering future charitable requests, with the objective of  
500 supporting those causes that will most benefit the Gas Companies' customers and their  
501 communities.

502 **I. Illinois Board Member**

503 **Q. When the Commission approved the reorganization of AGL Resources, Inc., and**  
504 **Nicor, Inc. (Docket No. 11-0046), where, like here, Illinois utilities would be owned**  
505 **by a holding company with its headquarters in another state, the Commission**  
506 **required that the holding company have at least one non-employee individual**  
507 **resident of Illinois be on its board of directors. Is Wisconsin Energy willing to agree**  
508 **to make a similar commitment?**

509 A. Yes, Wisconsin Energy is willing to commit to having at least one non-employee  
510 individual resident of Illinois be on the board of directors of the post-Reorganization

511 company as long as WEC Energy Group owns, controls, or manages the Gas Companies  
512 or the successor entities.

513 **VI. OTHER REGULATORY APPROVALS**

514 **Q. Please describe the other regulatory approvals, if any, the Joint Applicants must**  
515 **obtain with respect to the Reorganization.**

516 A. Concurrent with seeking approval from the Commission in this proceeding, Wisconsin  
517 Energy is seeking approval of the transaction from the Public Service Commission of  
518 Wisconsin, the Michigan Public Service Commission, and the FERC. In addition,  
519 Wisconsin Energy is filing a notice with the Minnesota Public Utilities Commission, and  
520 requesting approval should that commission determine that it has jurisdiction over the  
521 transaction.

522 Further, Section 7 of the Clayton Act (15 U.S.C. § 18) prohibits business  
523 combinations the effect of which may be substantially to lessen competition or to tend to  
524 create a monopoly. To facilitate enforcement of Section 7, parties to a proposed business  
525 combination such as this Transaction are required by the Hart-Scott-Rodino Antitrust  
526 Improvements Act of 1976, 15 U.S.C. § 18a (the "HSR Act"), to submit to the Federal  
527 Trade Commission ("FTC") and the Antitrust Division of the Department of Justice  
528 ("Antitrust Division") certain information regarding their operations and the proposed  
529 combination. The information must be provided to the agencies on a detailed  
530 Notification and Report Form for Certain Mergers and Acquisitions. The HSR Act also  
531 prohibits consummation of the merger until all applicable waiting periods under the HSR  
532 Act have expired or been terminated.

533           The HSR Act is intended to identify and postpone consummation of significant  
534 merger transactions in order to allow the FTC and Antitrust Division to meaningfully  
535 analyze the competitive effects of the transaction and to give them the time and discovery  
536 authority necessary to challenge the transaction prior to its consummation if the  
537 reviewing antitrust agency believes that the transaction will result in competitive harm.

538           The parties' submission of their filings under the HSR Act will initiate a waiting  
539 period which the parties must observe prior to consummating the merger. Additional  
540 information may be requested prior to the expiration of the initial waiting period. Such a  
541 request has the effect of extending the review process.

542           The federal antitrust enforcement agencies have been active in reviewing similar  
543 transactions in the energy industry, and it is expected that they will be vigilant with  
544 respect to this Transaction as well. In this case, Wisconsin Energy believes the proposed  
545 Transaction raises no significant issues regarding either horizontal or vertical market  
546 power in any appropriately defined market.

547           Additionally, Integrys and Wisconsin Energy must also receive regulatory  
548 authorization by the Federal Communications Commission to transfer control of private  
549 radio and microwave licenses under which they operate wireless telecommunications  
550 systems to support daily operations.

551 **Q.   What regulatory approval, if any, is required with respect to ATC in connection**  
552 **with the Reorganization.**

553 A.   ATC is an Illinois transmission-only public utility due to its ownership of a relatively  
554 small amount of electric transmission facilities within the state. Because ATC is an  
555 Illinois public utility and the Reorganization will result in a change in the ownership of a

556 majority of its voting capital stock, the Commission arguably needs to approve the  
557 Reorganization pursuant to Section 7-204 of the Act from the perspective of ATC, as  
558 well. The Joint Applicants have provided all of the information for ATC required by  
559 Section 7-204A(a) along with their Application. That information supports all of the  
560 same findings for ATC that are supported for the Gas Companies in this proceeding:

- 561 • The Reorganization will not impact how ATC is managed or operates its  
562 transmission system, nor will it impact the cost of service for customers because  
563 ATC charges no retail rates to any Illinois end-user. Thus, the Reorganization  
564 will not diminish ATC's ability to provide adequate, reliable, efficient, safe, and  
565 least-cost transmission service.
- 566 • The Reorganization will not result in any subsidization by ATC of non-utility  
567 activities by ATC or its customers.
- 568 • The Reorganization will not affect how costs and facilities are allocated between  
569 ATC's utility and non-utility activities, and, in any event, the Commission does  
570 not exercise any ratemaking authority over ATC so as to need to identify those  
571 costs and facilities for ratemaking purpose.
- 572 • The Reorganization will not affect ATC's ability to raise necessary capital on  
573 reasonable terms or to maintain a reasonable capital structure.
- 574 • ATC will remain subject to all applicable laws, regulations, rules, decisions and  
575 policies governing the regulation of Illinois public utilities to the extent applicable  
576 to a transmission-only public utility like ATC.
- 577 • Because of the commitments being made by Wisconsin Energy that except for  
578 fundamental corporate matters, Wisconsin Energy will not exercise control over  
579 ATC on matters requiring shareholder approval with respect to its ability to vote  
580 its shares of ATC's manager, ATCM, in addition to the fact that ATC's  
581 transmission service rates are regulated exclusively by the FERC, the  
582 Reorganization will not have a significant adverse effect on competition in those  
583 markets over which the Commission has jurisdiction.
- 584 • The Reorganization is not likely to result in any adverse impacts on retail  
585 customers because, as noted above, ATC charges no retail rates to any Illinois  
586 end-user.

587 For these reasons, Wisconsin Energy's acquisition of a majority ownership  
588 interest in ATC will have no material impact on end-use customers, competition or the

589 Commission's regulatory authority. Thus, the Commission should find that the  
590 Reorganization will not adversely affect ATC's ability to perform its duties under the  
591 Act.

592 **VII. WITNESS TOPICS**

593 **Q. How is the direct testimony of the Joint Applicants presented?**

594 A. In addition to the Transaction overview and Wisconsin Energy's commitments that I have  
595 set forth, there are three additional witnesses who will provide direct testimony.

596 • Scott Lauber is Vice President and Treasurer of Wisconsin Energy (Joint  
597 Applicants Ex. 2.0). Mr. Lauber will address accounting issues associated with  
598 Wisconsin Energy's acquisition of Integrys and the Reorganization; Wisconsin  
599 Energy's strong credit rating; how the Reorganization will not impair Peoples  
600 Gas' and North Shore's credit ratings or ability to raise capital on reasonable  
601 terms; how any savings that may result from the Reorganization will not be  
602 achieved immediately and be outpaced by the costs of achieving those savings for  
603 at least the period of time Wisconsin Energy is committed not to request a general  
604 base rate increase for the Gas Companies, after which savings resulting from the  
605 Reorganization net of the costs to achieve them will be flowed to customers in  
606 subsequent rate case proceedings; and the post-Reorganization structure of  
607 affiliate agreements affecting the Gas Companies and how costs will be properly  
608 allocated to ensure that there is no subsidization of one affiliate by another.

609 • John Reed is Chairman and Chief Executive Officer of Concentric Energy  
610 Advisors, Inc. and CE Capital, Inc. (Joint Applicants Ex. 3.0). Mr. Reed will

611 provide an overview of the Transaction and the commitments and conditions  
612 made by the Joint Applicants; discuss recent utility industry trends to provide  
613 context and insight into the underlying strategic, economic, and regulatory drivers  
614 that encourage transactions such as the proposed Transaction; present an overview  
615 of utility industry consolidation over the long-term and how that trend has  
616 changed over time; review the reactions of the credit rating agencies to  
617 consolidation in the utility industry generally and to the Joint Applicants in  
618 particular; describe the specific strategic, customer, and financial benefits from  
619 the Reorganization and the timing of those benefits; and address the  
620 Commission's standards for approval of the Reorganization and explain how the  
621 Reorganization satisfies those standards.

- 622 • James F. Schott is Executive Vice President and Chief Financial Officer of  
623 Integrys (Joint Applicants Ex. 4.0). Mr. Schott will provide an overview of  
624 Integrys, including the operations of the Gas Companies; discuss how the  
625 Transactions and Reorganization will not diminish the Gas Companies' ability to  
626 provide adequate, reliable, efficient, safe, and least-cost service to their  
627 customers; provide an overview of Peoples Gas' AMRP; discuss the Gas  
628 Companies transportation and retail choice programs, and how the Reorganization  
629 will not have any significant adverse effect on those programs or competition in  
630 the markets over which the Commission has jurisdiction; and provide five-year  
631 forecasts of the capital requirements for the Gas Companies.

632 **VIII. CONCLUSION**

633 **Q. Does this conclude your testimony?**

634 **A. Yes, it does.**