

DIRECT TESTIMONY

OF

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Accounting Department

Financial Analysis Division

Illinois Commerce Commission

**Application pursuant to Section 7-204 of the Public Utilities Act for authority to engage in a Reorganization, to enter into an agreement with affiliated interests pursuant to Section 7-101, and for such other approvals as may be required under the Public Utilities Act to effectuate the Reorganization**

Wisconsin Energy Corporation, Integrys Energy Group, Inc., Peoples Energy, LLC,  
ATC Management Inc., American Transmission Company LLC,  
The Peoples Gas Light and Coke Company, and North Shore Gas Company

Docket No. 14-0496

November 20, 2014

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1 **Witness and Schedule Identification**

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

3 A. My name is Daniel G. Kahle. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

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

6 A. I am currently employed as an Accountant in the Accounting Department of the  
7 Financial Analysis Division of the Illinois Commerce Commission ("Commission"  
8 or "ICC").

9 **Q. Please describe your professional background and affiliations.**

10 A. I have a Bachelor of Science degree in Accountancy from the University of  
11 Illinois. I am a Certified Public Accountant, licensed to practice in the State of  
12 Illinois. My prior accounting experience includes seventeen years as an internal  
13 auditor for the State of Illinois, including four years as Chief Auditor at the  
14 Department of Commerce and Economic Opportunity ("DCEO"), five years as an  
15 Accounting Office Manager at DCEO, as well as two years as an Assurance  
16 Services Manager in a public accounting firm. I joined the Staff of the Illinois  
17 Commerce Commission ("Staff") in April, 2006.

18 **Q. Have you previously testified before any regulatory bodies?**

19 A. Yes. I have testified on several occasions before the Commission.

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

21 A. The purpose of my testimony is to present my analysis and recommendations on  
22 issues presented by the Application for Authority to Engage in a Reorganization  
23 and to Enter into an Agreement (“Application”) filed by Wisconsin Energy  
24 Corporation (“Wisconsin Energy”), Integrys Energy Group, Inc. (“Integrys”),  
25 Peoples Energy, LLC (“PELLC”), ATC Management Inc. (“ATCM”), American  
26 Transmission Company LLC (“ATCLLC”) (collectively, ATCM and ATCLLC  
27 referred to as “ATC”), The Peoples Gas Light and Coke Company (“Peoples  
28 Gas”) and North Shore Gas Company (“North Shore”) (individually, the  
29 “Company” and collectively, Peoples Gas and North Shore referred to as the  
30 “Companies” or the “Gas Companies”) (all, collectively, the “Joint Applicants” or  
31 “JA”). Specifically, my testimony addresses (1) whether the proposed  
32 reorganization complies with the requirements set forth in Section 7-204(c) of the  
33 Public Utilities Act (“Act”); and (2) the approval of accounting entries.

34 **Q. Have you included any attachments with your testimony?**

35 A. Yes. I have included the following attachments, which present information  
36 prepared by the Companies:

37 Attachment A—Applicants’ response to Staff Data Request (“DR”) DGK-  
38 1.04

39 Attachment B—Applicants’ response to Staff DR DGK-1.05

40 **Section 7-204(c) – Allocation of Savings and Cost Recovery**

41 **Q. Section 7-204(c) of the Act states as follows:**

42 The Commission shall not approve a reorganization without ruling on: (i)  
43 the allocation of any savings resulting from the proposed reorganization;  
44 and (ii) whether the companies should be allowed to recover any costs  
45 incurred in accomplishing the proposed reorganization and, if so, the

46 amount of costs eligible for recovery and how the costs will be allocated.

47 **In your opinion, does the proposed reorganization comply with these**  
48 **requirements?**

49 A. Yes.

50 (i) Savings

51 The Joint Applicants do not identify any immediate cost savings. (JA Ex. 2.0  
52 REV., 12; JA Ex. 3.0, 32.) The Joint Applicants expect three to five percent net  
53 savings in non-fuel operations and maintenance. (JA Ex. 3.0, 36.) The Joint  
54 Applicants, however, do not expect the savings to occur until five to ten years  
55 after the reorganization. (JA Ex. 2.0 REV., 12; JA Ex. 3.0, 46.) The savings to  
56 be achieved in the future will flow through to ratepayers in future rate cases. (JA  
57 Ex. 2.0 REV., 12-13; JA Ex. 3.0, 46.) Based on my review, I found nothing that  
58 conflicts with the Company's conclusion regarding savings.

59 (ii) Cost Recovery

60 The Joint Applicants stated that they will not seek recovery of costs incurred to  
61 accomplish the reorganization from customers. The Joint Applicants also  
62 committed that they will not seek recovery of the acquisition premium paid as  
63 part of the reorganization in rate base, nor the amortization of the premium in  
64 future cost of service determinations. (JA Ex. 1.0, 2; JA Ex. 2.0 Rev., 11.) In  
65 response to Staff DR DGK-1.04, the Joint Applicants clarified that they would not  
66 seek recovery of these costs whether the costs were incurred before or after the  
67 closing of the reorganization. (Staff Ex. 5.0, Attachment A.) Further in Staff DR  
68 DGK-1.05, the Joint Applicants state that they would not seek cost recovery of

69 costs incurred to accomplish the reorganization in future rate cases. (Staff Ex.  
70 5.0, Attachment B.)

71 **Q. Do you recommend any conditions as a result of these recommended**  
72 **findings?**

73 A. Yes. Even though the Joint Applicants do not expect any savings to occur until  
74 five to ten years after the reorganization, the Joint Applicants have asserted that  
75 savings to be achieved in the future will flow through to ratepayers in future rate  
76 cases. Thus, I recommend that Commission find that the allocation of any  
77 savings resulting from the proposed reorganization flow through to ratepayers.

78 The Joint Applicants also state that the Gas Companies are not seeking recovery  
79 of costs incurred to accomplish the reorganization from customers. I recommend  
80 that the Gas Companies provide documentation that costs related to  
81 accomplishing the reorganization are not included in the revenue requirement in  
82 future rate cases. Thus, I recommend that the Commission find that the Gas  
83 Companies should not be allowed to recover any costs incurred in accomplishing  
84 the proposed reorganization. I further recommend that the Commission require  
85 the Gas Companies to demonstrate that costs resulting from accomplishing the  
86 reorganization are not included in the revenue requirement in future rate cases.

87 **Approval of Purchase Accounting Entries**

88 **Q. Have the Joint Applicants proposed accounting entries to record the**  
89 **reorganization?**

90 A. No. The Joint Applicants assert that there is no need for accounting entries to be  
91 recorded. The Joint Applicants maintain that the Gas Companies meet  
92 conditions for an exception to push-down accounting. Push-down accounting  
93 requires that for business combinations, the separate financial statements of a  
94 subsidiary reflect any fair value adjustments required to be made along with good  
95 will attributable to the subsidiary. The Joint Applicants believe that the Gas  
96 Companies meet an exception to push-down accounting in that the Gas  
97 Companies have significant outstanding public debt. The Joint Applicants intend  
98 to apply the exception and not reflect the impact of the acquisition on the books  
99 and financial statements of the Gas Companies. (JA Ex. 2.0 REV., 4-5.)

100 **Q. Do you agree with the Joint Applicants?**

101 A. Yes. The Joint Applicants appear to meet the conditions for an exception to  
102 push-down accounting and would not need to make the accounting entries to  
103 reflect push-down accounting. The Joint Applicants have not yet, however,  
104 received an exception to push-down accounting from the Securities and  
105 Exchange Commission ("SEC"). Should the Joint Applicants fail to receive an  
106 exception for push down accounting, I recommend that the Commission find that  
107 the impact of any push-down accounting entries be disregarded for regulatory  
108 reporting and ratemaking.

109 In addition, I recommend that the Joint Applicants in its rebuttal and surrebuttal  
110 testimonies and late-filed exhibits provide the status of its request to the SEC for  
111 an exception from push-down accounting.

112 Also, if the Joint Applicants do not receive a determination from the SEC prior to  
113 an order being entered in this case, I recommend that the Joint Applicants file a  
114 copy of the correspondence indicating the SEC's determination on e-Docket for  
115 this proceeding with a copy to the Commission's Manager of Accounting within  
116 ten-days of receiving the determination.

117 **Summary**

118 **Q. Please summarize your recommendations concerning the findings that the**  
119 **Commission should make in its Order for this proceeding.**

120 A. I recommend the Commission make the following findings to be in compliance  
121 with Section 7-204(c) of the Act:

- 122 1) Allocation of any savings resulting from the proposed reorganization shall  
123 flow through to ratepayers; and  
124 2) Any costs incurred in accomplishing the proposed reorganization shall not  
125 be recoverable from ratepayers.

126 **Q. Please summarize any conditions to the proposed reorganization you are**  
127 **recommending the Commission approve.**

128 A. I recommend the Commission accept the following proposed conditions to the  
129 reorganization:

- 130 1) In future rate cases, the Gas Companies shall identify all costs included in  
131 the test period that result from accomplishing the reorganization and  
132 demonstrate that such costs are not included in the rate case for recovery;

- 133                   2) Should the Joint Applicants fail to receive an exception to push down  
134                   accounting, any accounting entries made to the books of the Gas  
135                   Companies for push-down accounting related to the reorganization shall  
136                   be disregarded for ratemaking and regulatory reporting purposes; and
- 137                   3) If the Joint Applicants have not already filed the determination of its  
138                   request to the SEC for an exception from push-down accounting in  
139                   rebuttal or surrebuttal testimonies or in late-filed exhibits prior to an order  
140                   being entered in this proceeding, the Joint Applicants shall file the  
141                   determination from the SEC on e-Docket for this proceeding with a copy to  
142                   the Commission's Manager of Accounting within ten days of receiving the  
143                   determination.

144                   **Conclusion**

145                   **Q.     Does this question end your prepared direct testimony?**

146                   A.     Yes.

**ICC Docket No. 14-0496**  
**Joint Applicants' Response to**  
**Staff Data Requests DGK 1.01-1.10**  
**Dated: August 18, 2014**

**REQUEST NO. DGK 1.04:**

Will the Joint Applicants seek recovery of any merger-related costs incurred subsequent to the closing? If yes, please explain why those costs would not be excluded from recovery as are costs incurred to accomplish the merger prior to closing.

**RESPONSE:**

As described at page 11 of Mr. Lauber's direct testimony, the Joint Applicants will not seek recovery of the costs incurred to accomplish the Reorganization -- i.e. Transaction, Change in Control, Financing and Legal/Other Professional costs -- from customers, whether those costs are incurred before or after closing.

**ICC Docket No. 14-0496**  
**Joint Applicants' Response to**  
**Staff Data Requests DGK 1.01-1.10**  
**Dated: August 18, 2014**

**REQUEST NO. DGK 1.05:**

If Joint Applicants find it necessary to modify accounting or information systems or reorganize as a result of the merger, will the Joint Applicants ask for recovery of related costs? If yes, please explain why those costs would not be excluded from recovery as are costs incurred to accomplish the merger.

**RESPONSE:**

To the extent that accounting or information systems must be modified or a reorganization undertaken to achieve net savings for customers, then the costs incurred to do so would be sought in future rate cases as the resulting savings are passed along to customers. The Joint Applicants would only seek to recover such costs to the extent they are not costs incurred to accomplish the Reorganization -- i.e. Transaction, Change in Control, Financing and Legal/Other Professional costs. (See Revised Direct Testimony of Scott Lauber, JA Ex. 2.0 REV, pp. 11-13).