

REBUTTAL 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

January 15, 2015

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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. Have you previously filed testimony in this proceeding?**

6 A. Yes, my direct testimony was filed as ICC Staff Ex. 5.0 on November 20, 2014.

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

8 A. The purpose of my rebuttal testimony is to present my reply to testimony for the
9 Application for Authority to Engage in a Reorganization and to Enter into an
10 Agreement (“Application”) filed by Wisconsin Energy Corporation (“Wisconsin
11 Energy”), Integrys Energy Group, Inc. (“Integrys”), Peoples Energy, LLC
12 (“PELLC”), ATC Management Inc. (“ATCM”), American Transmission Company
13 LLC (“ATCLLC”) (collectively, ATCM and ATCLLC referred to as “ATC”), The
14 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
15 Company (“North Shore”) (individually, the “Company” and collectively, Peoples
16 Gas and North Shore referred to as the “Companies” or the “Gas Companies”)
17 (all, collectively, the “Joint Applicants” or “JA”). Specifically, my rebuttal
18 testimony replies to Mr. Allen L. Leverett (JA Ex. 6.0) and Mr. Scott J. Lauber (JA
19 Ex. 7.0) regarding my recommendations related to reorganization savings, cost
20 recovery and purchase accounting entries.

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

22 A. No.

23 Q. In your direct testimony, did you make any recommendations as far as conditions
24 for approval of the merger?

25 A. Yes, I recommended the following conditions to the proposed reorganization:

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

29 2) Should the Joint Applicants fail to receive an exception from the Securities
30 and Exchange Commission ("SEC") to use push-down accounting, any
31 accounting entries made to the books of the Gas Companies for push-
32 down accounting related to the reorganization shall be disregarded for
33 ratemaking and regulatory reporting purposes; and

34 3) If the Joint Applicants have not already filed the determination of its
35 request to the SEC for an exception from push-down accounting in
36 rebuttal or surrebuttal testimonies or in late-filed exhibits prior to an order
37 being entered in this proceeding, the Joint Applicants shall file the
38 determination from the SEC on e-Docket for this proceeding with a copy to
39 the Commission's Manager of Accounting within ten days of receiving the
40 determination.

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

42 Q. **Did the Joint Applicants accept your recommendations related to savings**
43 **and cost recovery?**

44 A. Yes.

45 Savings

46 The Joint Applicants agreed with my recommendation that the allocation of any
47 savings resulting from the proposed reorganization would flow through to
48 ratepayers. (JA Ex. 7.0, 19.)

49 Cost Recovery

50 The Joint Applicants agree to not seek recovery of costs incurred to accomplish
51 the proposed reconciliation. The Joint Applicants refer to these costs as
52 “transaction costs.” The Joint Applicants defined transaction costs to be costs
53 such as banker’s fees, legal fees, or severance costs incurred as a result of the
54 transaction. Examples of these severance costs were given as executive
55 change-in-control payments. Executive change-in-control payments are
56 identified in SEC Form S-4¹ filing by the Joint Applicants. (JA Ex. 6.0, 3 and JA
57 Ex. 7.0, 19.)

58 The Joint Applicants further discussed a distinction between transaction costs
59 and “transition costs.” The Joint Applicants defined transition costs to be costs
60 incurred after the close of the transaction to achieve long-term efficiencies and
61 savings. The Joint Applicants stated that transition costs may be recoverable to
62 the extent the transition costs do not exceed the savings the transition costs
63 produce. (JA Ex. 7.0, 19.) To facilitate this distinction between transaction costs
64 and transition costs, I recommend that the Commission require that the Gas
65 Companies separately identify and track transaction costs and transition costs.

¹ <http://www.sec.gov/Archives/edgar/data/783325/000104746914006925/a2221048zs-4.htm>.

66 The Joint Applicants also agree that in future rate cases they would identify all
67 costs included in the test period resulting from accomplishing the reorganization
68 (transaction costs) and demonstrate that such costs are not included in the rate
69 case for recovery. (JA Ex. 7.0, 19-20.)

70 I am in agreement with the definitions of transaction and transition costs, and
71 their treatment, as proposed by the Joint Applicants. [Id.]

72 **Approval of Purchase Accounting Entries**

73 **Q. Did the Joint Applicants accept your recommendations related to purchase**
74 **accounting entries?**

75 A. In general yes, however, the SEC recently issued Accounting Standards Update
76 No. 2014-17 (“Update”). As a result of the Update, the Joint Applicants do not
77 require an SEC exception for push-down accounting and will not follow push-
78 down accounting for the Gas Companies. (JA Ex. 7.0, 22.) Therefore, my direct
79 testimony recommendations related to push–down accounting are obsolete. The
80 Joint Applicants offered an alternative recommendation that should the Joint
81 Applicants opt to follow push down accounting for the reorganization, any
82 accounting entries made to the books of the Gas Companies for push-down
83 accounting related to the reorganization shall be disregarded for ratemaking and
84 regulatory reporting purposes. (JA Ex. 7.0, 23.) I agree with this alternate
85 recommendation.

86 **Summary**

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

89 A. These conditions replace the conditions that I offered in my direct testimony. I
90 recommend the Commission condition its approval of the proposed
91 reorganization on the following:

- 92 1) In future rate cases, the Gas Companies shall identify all costs included in
93 the test period that result from accomplishing the reorganization
94 (transaction costs) and demonstrate that such costs are not included in
95 the rate case for recovery;
- 96 2) The Gas Companies shall separately identify and track transaction costs
97 and transition costs; and
- 98 3) Any accounting entries made to the books of the Gas Companies for
99 push-down accounting related to the reorganization shall be disregarded
100 for ratemaking and regulatory reporting purposes.

101 If these conditions are adopted, I recommend the Commission find that the
102 proposed reorganization is in compliance with Section 7-204(c) of the Act.

103 **Q. Please summarize any other recommendations you have for the**
104 **Commission.**

105 A. If the Commission approves the proposed reorganization, I recommend that the
106 Commission's Order include the following directives on savings and cost
107 recovery which were agreed to by the Companies:

- 108 1) Allocation of any savings resulting from the proposed reorganization shall
109 flow through to ratepayers;

- 110 2) Transaction costs incurred in accomplishing the proposed reorganization
111 shall not be recoverable from ratepayers; and
112 3) Transition costs may be recoverable to the extent the transition costs
113 produce savings.

114 **Conclusion**

115 **Q. Does this question end your prepared rebuttal testimony?**

116 A. Yes.