

REBUTTAL TESTIMONY

OF

DIANNA HATHHORN

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

TABLE OF CONTENTS

WITNESS AND SCHEDULE IDENTIFICATION..... 1
AFFILIATE INTEREST TRANSACTIONS 2
AG RIDER RECOMMENDATIONS 6
SUMMARY 7

1 **Witness and Schedule Identification**

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

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5
6 **Q. Are you the same Dianna Hathhorn who previously provided direct**
7 **testimony in this proceeding?**

8 A. Yes. My direct testimony is ICC Staff Ex. 6.0.

9
10 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

11 A. The purpose of my testimony is to respond to the reply of Wisconsin Energy
12 Corporation (“Wisconsin Energy”), Integrys Energy Group, Inc. (“Integrys”),
13 Peoples Energy, LLC (“PELLC”), ATC Management Inc. (“ATCM”), American
14 Transmission Company LLC (“ATCLLC”) (collectively, ATCM and ATCLLC
15 referred to as “ATC”), The Peoples Gas Light and Coke Company (“Peoples
16 Gas”) and North Shore Gas Company (“North Shore”) (individually, the
17 “Company” and collectively, Peoples Gas and North Shore referred to as the
18 “Companies” or the “Gas Companies”) (all, collectively, the “Joint Applicants” or
19 “JA”) to my recommendations on issues concerning (a) whether the proposed
20 reorganization complies with the requirements set forth in paragraphs (2) and (3)
21 of Section 7-204(b) of the Public Utilities Act (“Act”); and (b) whether the
22 Commission should approve the affiliated interest agreement for which the Joint
23 Applicants seek approval. I also present an additional recommendation

24 concerning the presentation of accepted commitments and conditions in this
25 case. Finally, I comment upon two conditions from Mr. David Effron, testifying for
26 the People of the State of Illinois (“AG”).

27
28 **Attachments**

29 **Q. Have you included any attachments as part of your rebuttal testimony?**

30 A. No.

31
32
33 **Affiliate Interest Transactions**

34 **Q. Please present the recommendations contained in your direct testimony.**

35 A. I recommended the following proposal to enable the Commission to make its
36 findings required by Sections 7-204(b)(2) and 7-204(b)(3):

- 37 • Joint Applicants should include in rebuttal testimony in Docket No. 14-0496
38 any changes in the Gas Companies’ Affiliated Interest Agreement approved in
39 Docket No. 10-0408 (“10-0408 AIA”) that are acceptable to the Gas
40 Companies;
- 41 • The proposed WEC Energy Group Affiliated Interest Agreement (“WEC
42 Energy Group AIA”) (JA Ex. 2.4), updated to reflect any changes resulting
43 from Docket No. 12-0273/13-0612 (Cons.), should be approved on an interim
44 basis until the Commission has approved a new affiliated interest agreement
45 in an order in Docket Nos. 12-0273/13-0612 (Cons.); and
- 46 • The resulting affiliate interest agreement approved by the Commission in
47 Docket Nos. 12-0273/13-0612 (Cons.) would replace the existing 10-0408

48 AIA as the governing document of affiliate transactions between the Joint
49 Applicants.

50

51 Based on this proposal, I recommended the Commission condition its approval of
52 the transaction upon the following conditions:

- 53 1) Joint Applicants must provide to the Manager of the Commission's
54 Accounting Department and file on the ICC's e-Docket system in Docket
55 No. 14-0496, a copy of the signed, executed Interim WEC Energy Group
56 AIA ("Interim Agreement") that is being approved by the Commission in
57 this proceeding, within 60 days after the date of the transaction;
- 58 2) Joint Applicants must provide to the Manager of the Commission's
59 Accounting Department and file on the ICC's e-Docket system in Docket
60 No. 14-0496 a copy of the signed, executed Final WEC Energy Group AIA
61 including any Illinois Rider ("Final Agreement") pursuant to the
62 Commission order in Docket Nos. 12-0273/13-0612 (Cons.) if there are
63 any changes between the Interim Agreement and a Final Agreement;
- 64 3) The Gas Companies must supplement the information provided annually in
65 their Form 21 ILCCs to the Commission with the following information on
66 page 47 of Form 21 ILCC, beginning with the 2014 information to be
67 submitted by March 31, 2015:

68 Column A – A breakdown of affiliated transactions by functional area
69 grouped by direct billed versus allocated costs
70 Column B – Name of associated/affiliated company providing or receiving
71 the service
72 Column C – Account that charges from associated/affiliated company are
73 booked if the costs would have originated at the utility

74 Column D – Amount for the year
75 Column E – Docket number and regulatory authority approving the
76 transaction
77 Column F – Footnote referencing the applicable exhibits from the affiliated
78 interest agreements

79 4) Joint Applicants must file a semi-annual compliance report on the ICC's e-
80 Docket system in Docket No. 14-0496, reporting the status of its progress
81 of all conditions imposed by the Commission in this case. This reporting
82 requirement shall remain in effect until all conditions have been satisfied
83 or the Joint Applicants petition the Commission and receive approval to
84 cease such reporting requirement, whichever comes first; and

85 5) The Chief Executive Officer of WEC Energy Group must, on an annual
86 basis, appear before the Commission to report on the status of the Joint
87 Applicants' compliance with the Order in Docket No. 14-0496 and to
88 continue to appear until all conditions have been satisfied or the Joint
89 Applicants petition the Commission and receive approval to cease such
90 appearance requirement, whichever comes first.

91
92 Finally, based on this plan, I recommended the Commission make the following
93 findings:

94 1) Subject to the Commission's conclusions in Docket Nos. 12-0273/13-0612
95 (Cons.), find that the Joint Applicants are in compliance with Section 7-
96 204(b)(2) of the Act, such that the proposed reorganization will not result
97 in the unjustified subsidization of non-utility activities by the utility or its
98 customers; and

99 2) Subject to the Commission's conclusions in Docket Nos. 12-0273/13-0612
100 (Cons.), find that the Joint Applicants are in compliance with Section 7-
101 204(b)(3) of the Act, such that costs and facilities are fairly and reasonably
102 allocated between utility and non-utility activities in such a manner that the
103 Commission may identify those costs and facilities that are properly
104 included by the utility for ratemaking purposes.

105
106 **Q. Did the Joint Applicants agree with your plan to enable the Commission to**
107 **make its findings required by Sections 7-204(b)(2) and 7-204(b)(3)?**

108 A. Yes. The JA agreed to accept conditions (1) and (2) concerning the Interim and
109 Final Agreements. (JA Ex. 7.0, 11: 231-233.)
110

111 **Q. Did the Joint Applicants present any concerns regarding your**
112 **recommendation to include in rebuttal testimony in Docket No. 14-0496 any**
113 **changes in the 10-0408 AIA that are acceptable the Gas Companies?**

114 A. Yes. The JA stated that since discovery is ongoing in Docket Nos. 12-0273/13-
115 0612 (Cons.) which addresses changes proposed by Staff to the 10-0408 AIA,
116 the issue needs to be resolved first in that docket before the JA can provide an
117 update to the proposed WEC Energy Group AIA in this proceeding. (JA Ex. 7.0,
118 11: 239-242.)
119

120 **Q. Do you agree with the JA concern?**

121 A. Yes, I agree that the issue is unresolved at the time of the JA and Staff rebuttal

122 testimonies, and that it would be better to update the record in this proceeding
123 once any changes to the 10-0408 AIA are approved by the Commission in
124 Docket Nos. 12-0273/013-0612 (Cons.). The JA have agreed that the proposed
125 WEC Energy Group AIA will be updated to reflect any changes resulting from
126 Docket No. 12-0273/13-0612 (Cons.). Therefore, I have no further concerns
127 regarding this recommendation.

128

129 **Q. Did the JA agree to the remainder of your recommendations?**

130 A. Yes. (JA Ex. 7.0, 12: 249-250; JA Ex. 6.0, 888-896.)

131

132

133 **Q. Do you have an additional recommendation?**

134 A. Yes. I recommend that the JA include in each filing that remains in this case, i.e.
135 surrebuttal, initial briefs, etc., a complete listing to date of all commitments and
136 conditions to which they agree. This would include those originally proposed by
137 JA with any changes as appropriate.

138

139 **AG Rider Recommendations**

140 **Q. Do you have any comments on the AG recommendations to impose two**
141 **riders as conditions on the JA? (AG Ex. 1.0, 19-20.)**

142 A. Yes. Mr. Effron recommends two riders be imposed as conditions. My
143 understanding is that he first recommends a rider for the difference between
144 headcounts for the Test Year reflected in the revenue requirements presented by

145 the Gas Companies in Docket Nos. 14-0224/14-0225 (cons.) (“rate case”) and
146 the JA employee headcount commitment approved in the present case. (Id.,
147 438-444.) I understand his second recommendation to be for a rider for
148 differences in costs of the Integrys Customer Experience (“ICE”) project in the
149 rate case versus ICE costs incurred if the reorganization is approved. (Id., 450-
150 457.) My two comments are: (1) for legal reasons, Staff does not support these
151 two proposed riders; and (2) Staff will address the issue in the briefing stage of
152 this docket. I have no further comments concerning these two proposed riders.
153

154 **Summary**

155 **Q. Please summarize the recommendations contained in your testimony.**

156 A. The JA have agreed to the following plan to enable the Commission to make its
157 findings required by Sections 7-204(b)(2) and 7-204(b)(3):

- 158 • The proposed WEC Energy Group AIA updated to reflect any changes
159 resulting from Docket No. 12-0273/13-0612 (Cons.) shall be approved on an
160 interim basis until the Commission has approved a new affiliated interest
161 agreement in an order in Docket Nos. 12-0273/13-0612 (Cons.); and
- 162 • The resulting affiliate interest agreement approved by the Commission in
163 Docket Nos. 12-0273/13-0612 (Cons.) shall replace the existing 10-0408 AIA
164 as the governing document of affiliate transactions between the Joint
165 Applicants.

166
167 Further, the JA have agreed that the Commission should condition its approval of

168 the transaction upon the following conditions:

169 1) Joint Applicants must provide to the Manager of the Commission's
170 Accounting Department and file on the ICC's e-Docket system in Docket
171 No. 14-0496, a copy of the signed, executed Interim Agreement that is
172 being approved by the Commission in this proceeding, within 60 days after
173 the date of the transaction;

174 2) Joint Applicants must provide to the Manager of the Commission's
175 Accounting Department and file on the ICC's e-Docket system in Docket
176 No. 14-0496 a copy of the signed, executed Final Agreement pursuant to
177 the Commission order in Docket Nos. 12-0273/13-0612 (Cons.) if there
178 are any changes between the Interim Agreement and a Final Agreement;

179 3) The Gas Companies must supplement the information provided annually in
180 their Form 21 ILCCs to the Commission with the following information on
181 page 47 of Form 21 ILCC, beginning with the 2014 information to be
182 submitted by March 31, 2015:

183 Column A – A breakdown of affiliated transactions by functional area
184 grouped by direct billed versus allocated costs

185 Column B – Name of associated/affiliated company providing or receiving
186 the service

187 Column C – Account that charges from associated/affiliated company are
188 booked if the costs would have originated at the utility

189 Column D – Amount for the year

190 Column E – Docket number and regulatory authority approving the
191 transaction

192 Column F – Footnote referencing the applicable exhibits from the affiliated
193 interest agreements

194 4) Joint Applicants must file a semi-annual compliance report on the ICC's e-
195 Docket system in Docket No. 14-0496, reporting the status of its progress

196 of all conditions imposed by the Commission in this case. This reporting
197 requirement shall remain in effect until all conditions have been satisfied
198 or the Joint Applicants petition the Commission and receive approval to
199 cease such reporting requirement, whichever comes first; and

- 200 5) The Chief Executive Officer of WEC Energy Group must, on an annual
201 basis, appear before the Commission to report on the status of the Joint
202 Applicants' compliance with the Order in Docket No. 14-0496 and to
203 continue to appear until all conditions have been satisfied or the Joint
204 Applicants petition the Commission and receive approval to cease such
205 appearance requirement, whichever comes first.

206
207 If the plan and conditions explained above are adopted, I recommend the
208 Commission make the following findings:

- 209 1) Subject to the Commission's conclusions in Docket Nos. 12-0273/13-0612
210 (Cons.), find that the Joint Applicants are in compliance with Section 7-
211 204(b)(2) of the Act, such that the proposed reorganization will not result
212 in the unjustified subsidization of non-utility activities by the utility or its
213 customers; and
- 214 2) Subject to the Commission's conclusions in Docket Nos. 12-0273/13-0612
215 (Cons.), find that the Joint Applicants are in compliance with Section 7-
216 204(b)(3) of the Act, such that costs and facilities are fairly and reasonably
217 allocated between utility and non-utility activities in such a manner that the

218 Commission may identify those costs and facilities that are properly
219 included by the utility for ratemaking purposes.

220
221 Finally, I recommend that the JA include in each filing that remains in this
222 case, i.e. surrebuttal, initial briefs, etc., a complete listing to date of all
223 commitments and conditions to which they agree.

224 **Conclusion**

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

226 **A. Yes.**