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Public Service Commission of Wisconsin
Direct Testimony of Kevin W. O'Donnell, CFA
Nova Energy Consultants, Inc.

Wisconsin Energy Corporation
Docket 9400-YO-100

January 14, 2015

Q. Please state your name, business address, and occupation.

A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants, Inc. My business address is 1350 Maynard Road, Suite 101, Cary, North Carolina 27511.

Q. On whose behalf are you presenting testimony in this proceeding?

A. I am testifying on behalf of the staff of the Public Service Commission of Wisconsin.

Q. Please summarize your educational background and relevant employment experience.

A. I have a Bachelor of Science in Civil Engineering from North Carolina State University and a Master of Business Administration from the Florida State University. I earned the designation of Chartered Financial Analyst (CFA) in 1988. I have worked in utility regulation since September 1984, when I joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left the NCUC Public Staff in 1991 and have worked continuously in utility consulting since that time, first with Booth & Associates, Inc. (until 1994), then as Director of Retail Rates for the North Carolina Electric Membership Corporation (1994-1995), and since 1995 for my own firm Nova Energy Consultants, Inc. I have been accepted as an expert witness on rate of return, cost of capital, capital structure, cost of service, and other regulatory issues in general rate cases, fuel cost proceedings, and other proceedings before the North Carolina Utilities Commission, the South Carolina Public Service Commission, the Virginia State Commerce Commission, the Minnesota Public Service Commission, the New Jersey Board of Public Utilities, and the Florida

Public Service Commission. In 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power, concerning competition within the electric utility industry. Additional details regarding my education and work experience is set forth in Ex.-PSC-O'Donnell-1 to my direct testimony.

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

A. The purpose of my testimony in this proceeding is to present to the Commission my findings as to how other commissions in the United States have dealt with the following two issues in utility acquisitions and mergers:

1. How merger or acquisition benefits were shared with utility customers in other states; and
2. How the merger or acquisition would likely impact the creditworthiness of the affected utilities.

Q. Please summarize your testimony in this proceeding.

A. Wisconsin statutes require the Public Service Commission to find that the acquisition of Integrys Energy Group, Inc. (Integrys Energy) by Wisconsin Energy Corporation (WEC) is in the public interest. Such a review standard is common among state regulators. What is in the public interest and whether open to measurement are matters of debate. Nonetheless, I believe a question in this case that is almost always a core issue in the public interest debate is how consumers can be assured that they will either monetarily benefit from the merger or, at the minimum, be assured that the transition costs of the merger will not exceed the benefits.

As part of my analysis in this case, I reviewed 78 state merger proceedings from across the U.S. and provided details to the Commission as to how other states handled the issue of consumer benefits in merger and acquisition proceedings. I further provide a guideline that the Commission may elect to use in this case if it determines that consumers should be afforded some upfront monetary rate credit as part of the approval of the acquisition application. My suggested rate credit guideline is 2 percent to 4 percent of non-fuel/non-purchased power operations and maintenance (O&M) expenses.

Lastly, I am concerned that this acquisition transaction may have negative credit rating implications for WEC. Due to my concerns, I have herein identified three strategies for the Commission's consideration to deal with possible credit issues that may arise from this acquisition of Integrys Energy by WEC.

Q. How is your testimony structured?

A. My testimony is divided into six sections as follows:

I. Description of Acquisition and Issues of Concern
II. Merger/Acquisition Review Standards
III. Review of Past Mergers Across the United States
IV. Customer Impacts in Utility Mergers and Acquisitions
V. Review of Company Witness Reed's Testimony
VI. Creditworthiness Issue in WEC/Integrys Acquisition

I. ACQUISITION DESCRIPTION AND CONCERNS

Q. Please describe the transaction between WEC and Integrys Energy.

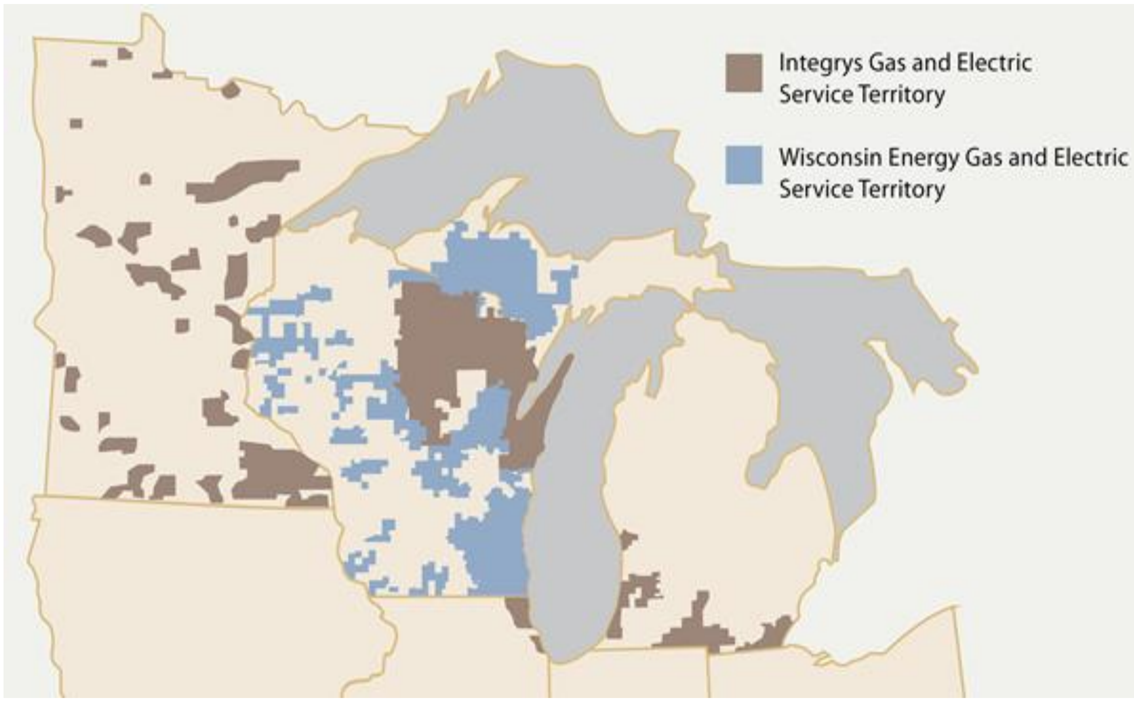
A. On June 23, 2014, WEC announced that it would acquire Integrys Energy in a $9.1 billion transaction. In the acquisition transaction, WEC will pay Integrys Energy stockholders $71.47 per share of outstanding stock with a trade ratio such that Integrys Energy stockholders will receive 1.128 shares of WEC common stock and $18.58 in cash per share of outstanding stock. This acquisition price presents a 17.3 percent premium on the price of Integrys Energy stock on the previous trading day (June 20, 2014). Upon the close of the acquisition, Integrys Energy stockholders will own roughly 28 percent of the combined company.

WEC is a holding company for several different utility companies that provides electric, natural gas, and steam service in Wisconsin. Fiscal year 2013 revenues for WEC, through its subsidiaries Wisconsin Electric Power Company (WEPCO) and Wisconsin Gas, LLC, were $4.5 billion and the company served approximately 2.2 million electric, steam, and natural gas customers. The company has a total of 5,987 MW of electric generation capacity as well as 45,597 miles of electric transmission and distribution lines. On the natural gas side, WEC has 20,967 miles of gas transmission and distribution lines.

Integrys Energy is a holding company for Wisconsin Public Service Corporation, Peoples Gas, North Shore Gas, Minnesota Energy Resources, and Michigan Gas Utilities. In conjunction with the acquisition transaction, Integrys Energy has decided to sell its retail energy services business and has already done so, receiving over $300 million for the unit. Integrys Energy had 2013 revenues of $5.6 billion and serves over 2.1 million electric and natural gas consumers. The company has 2,816 MW of electric generation, 25,100 miles of electric transmission and distribution lines, and 23,300 miles of natural gas transmission and distribution lines.

Below is a map that shows the current Integrys Energy and WEC service territories.

Chart 1: Service Territories of WEC and Integrys Energy Subsidiaries



Source: http://www.Wisconsinenergy.com/ieg/index.htm

Gale Klappa, who is the current WEC Chairman and CEO, will become Chairman and CEO of the combined company. The name of the company will be the WEC Energy Group, Inc., and is to be headquartered in Milwaukee, with operating offices in Chicago, Green Bay, and Milwaukee.

Q. What justifications does WEC advance to support its assertion that the proposed acquisition is in the best interest of Wisconsin and its citizens?

A. In its application, WEC maintains that the acquisition will have the following benefits to the public, utility consumers, and investors:

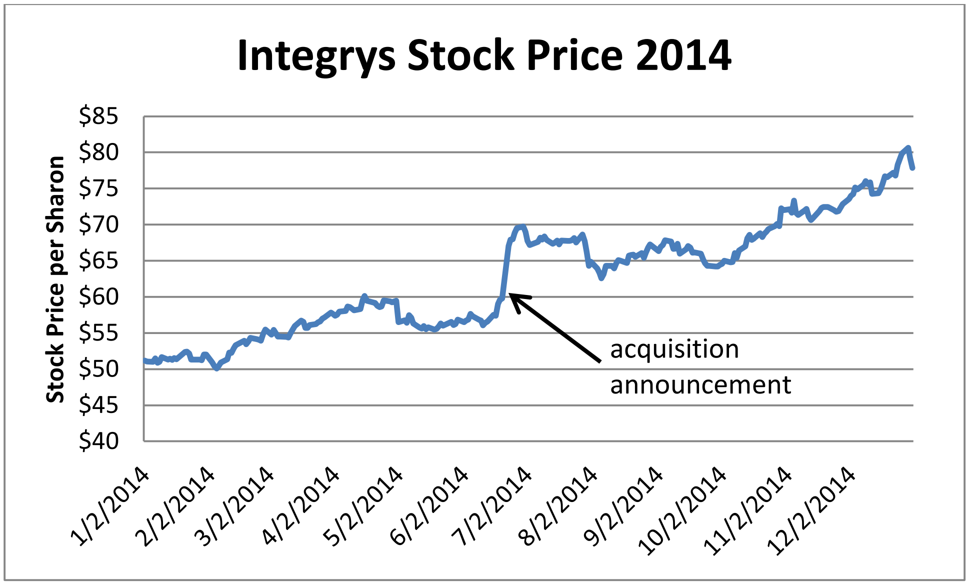
- The merging of the companies will create a larger and financially stronger utility with greater liquidity and improved access to capital markets, which will allow the combined companies to achieve lower-cost debt;
- The combination of WEC and Integrys Energy will strengthen each company's operating affiliates by integrating best practices in areas such as distribution operations, large capital project management, gas supply, system reliability and customer service;

- The WEC and Integrys Energy combination will allow both companies to continue to make contributions to economic development efforts and support various philanthropic activities;
- The acquisition will increase the diversity of the generation portfolio of the combined companies and also create a larger geographic footprint;
- The WEC and Integrys Energy combination will facilitate continued prudent investment in needed utility infrastructure, including the ability to use the strong cash flow of the combined companies to fund future investments without issuing new equity; and
- The combined companies will be poised for continued growth. (p. 1-2 of Application, PSC REF#: 213332)

Q. How will stockholders benefit from this acquisition?

A. The stock price for Integrys Energy has already risen since the announcement of the transaction. To be specific, WEC has agreed to pay Integrys Energy stockholders a $2.4 billion acquisition premium for the purchase of Integrys Energy stock (p. 4 of Application). Chart 2 below shows the tremendous run-up in price for Integrys Energy stock in 2014. To be specific, Integrys Energy ended 2013 trading at $52.10 per share. At year-end 2014, the Integrys Energy stock was trading at $77.85 per share. For the year 2014, stockholders of Integrys Energy realized substantial price appreciation of 49.4 percent.

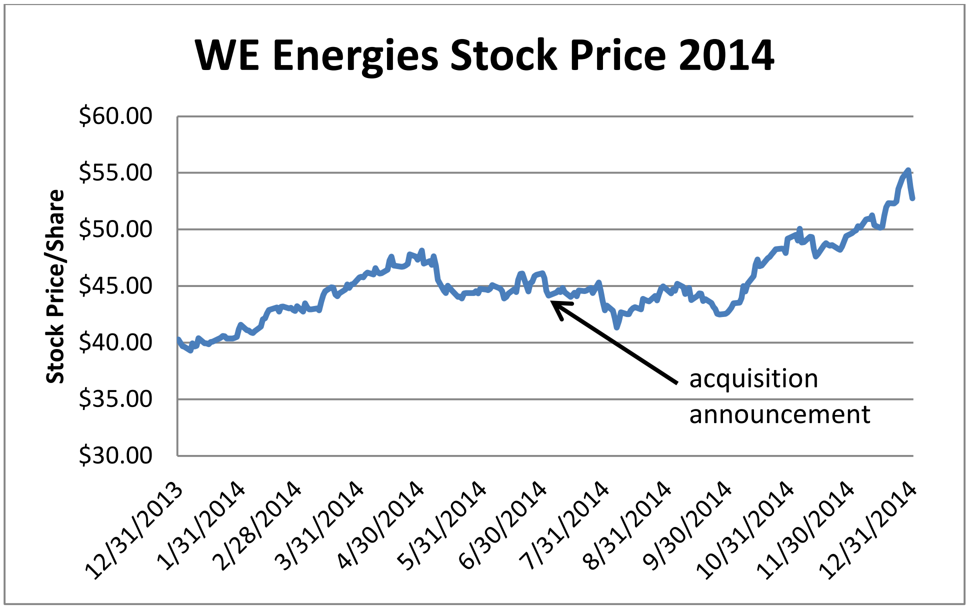
Chart 2: Integrys Energy Stock Price in 2014



Q. How did the stock of We Energies perform in 2014?

A. We Energies started 2014 trading at $40.28 and ended the year at $52.74 per share, thereby achieving a capital appreciation rate of 30.9 percent for the year.

Chart 3: We Energies Stock Price in 2014



As can be seen in the chart above, the stock price of We Energies did not change much with the announcement of the Integrys Energy acquisition.

Q. How did the overall utility stock market perform in 2014 and how does the price appreciation of Integrys Energy and We Energies compare to the market performance?

A. The Dow Jones Utility index began 2014 at 490.57 and ended the year at 618.08, thereby representing a gain of about 26.0 percent for the year. Integrys Energy's market appreciation of 49.4 percent is almost double the growth of the utility market index. The We Energies growth of approximately 31 percent is still solidly better than the utility market appreciation of 26 percent.

Q. How does the market anticipate the companies, as WEC Energy Group, to perform in the future?

A. According to *The Value Line Investment Survey* (12-19-14 edition), WEC management believes the merger will allow the Company to increase its current expected growth rate of 4 percent to 6 percent up to a range of 5 percent to 7 percent. In addition to the higher anticipated growth rate resulting from the acquisition, Value Line also expects WEC shareholders to receive a large dividend hike of $0.11 per share in early 2015.

Q. Is WEC seeking rate recovery for the $2.4 billion acquisition premium in this case?

A. No. WEC has indicated that it will not seek recovery of the $2.4 billion acquisition premium in this acquisition application.

Q. Does WEC state how consumers benefit from this acquisition?

A. Yes. On page 4 of the Application, WEC states that the acquisition will benefit consumers through ***future savings*** in the following areas: economies of scale; enhanced purchased power; joint resource planning over a more diverse and larger system; the adoption of best practices observed in both companies; efficiencies in operations and maintenance and project management; and the sharing of administrative and other service costs over a larger organization.

Q. Does WEC promise consumers will receive any set percentage of future savings as a result of this acquisition?

A. No. WEC cites possible savings in the future and goes so far as to indicate the acquisition is "likely" to result in possible savings in the range of 3 percent to 5 percent of non-fuel O&M expenses (p. 3 of Application), but WEC did not promise to share any set amount of savings with consumers nor did it guarantee that the benefits from the acquisition will outweigh the transition costs incurred to complete the acquisition integration. In fact, WEC and Integrys Energy state that no acquisition savings synergy study has been done at all in this case. To be specific, Mr. Reed states in his prefiled testimony:

> While neither the Companies nor I have conducted a detailed analysis of the 20 potential merger synergy savings specific to the merger of WEC and

> Integrys, I have 21 examined the synergy savings attributable to many other mergers. (Source: Direct-WEC-Reed-34)

Q. How will the public at-large benefit from the acquisition, according to WEC?

A. In its acquisition application, WEC states that the combined companies will provide benefits such as economies of scale, the possibility of lower interest rates, a more diverse generation base, and other factors, that will all come about as a result of a larger company.

Q. Do you have any concerns regarding the application filed in this case?

A. Yes, I have two major concerns.

First, the lack of even a basic financial analysis to ascertain possible acquisition savings is, to me, unprecedented given the fact that this merger is a $9.1 billion transaction. Basic fiduciary duty, in my opinion, mandates that in considering approval of the transaction, both boards should have been given financial figures detailing exactly how WEC was going to make the acquisition benefit stockholders. As noted above, the Integrys Energy stockholders undoubtedly have already benefitted from the proposed transaction. The same cannot be said for the WEC stockholders.

The lack of a detailed financial analysis showing potential savings also leaves the Commission without evidence to show that the asserted benefits from the merger outweigh the costs. Normally, as I understand administrative proceedings, a petitioner or applicant for a specific order has the affirmative, that is, the initial burden of justifying the requested outcome with relevant, credible, and supportive evidence. In this case, however, the petitioner has abdicated this responsibility with respect to quantitative financial benefits for stockholders and customers. WEC has, essentially, put Commission staff in a bind to determine and quantify potential benefits and costs.

The second major concern that I have with the application in this case is that, as noted above, one of the primary benefits cited by WEC is the possibility of lower interest costs as the result of a financially stronger company. Unfortunately for WEC, soon after the announcement of the acquisition, Moody's changed the rating outlook for WEC from stable to negative, citing the assumption of long-term debt by WEC in its acquisition of Integrys Energy as well as the issuance of $1.5 billion in new debt to make the cash payment to Integrys Energy stockholders (source: June 23, 2014 Moody's Investor Services). In a similar move, Moody's upgraded the ratings outlook for Integrys Energy citing the decision to sell the Integrys Energy retail unit (source: Sept. 18, 2014 Moody's Investor Services).

This June 23, 2014, Moody's report does affirm the ratings of the WEC utility affiliates but, in my opinion, questions remain as to the long-term impact on the affiliates' ratings if WEC itself is downgraded.

II. STATE MERGER/ACQUISITION REVIEW STANDARDS

Q. Please describe the current utility industry and why mergers are occurring more often in the industry.

A. The electric utility industry has recently entered a period of little load growth due to a large wave of energy efficiency efforts, the implementation of renewable energy alternatives available to individual consumers, as well as relatively mild economic growth. In conjunction with the relatively low load growth, capital construction costs are increasing as new plants are being brought online for environmental reasons as well as to meet slowing load growth.

Mergers and acquisitions are seen as attractive ways for utilities to mitigate risk and meet the demand for infrastructure related capital expenditures. Utilities can mitigate risk through mergers and acquisitions by (1) building scale, capturing the economies of scale that go along with the larger sized companies, and (2) diversifying business and operating risks. Of course, the ultimate goal in the above-stated risk mitigation measures is to grow earnings and dividends for stockholders.

As stated above, and as found on pages. 1-2 of the application in this case, the WEC/Integrys Energy transaction is essentially about two companies attempting to capture economies of scale normally associated with larger companies. These economies of scale, it is hoped by WEC, will result in stronger earnings.

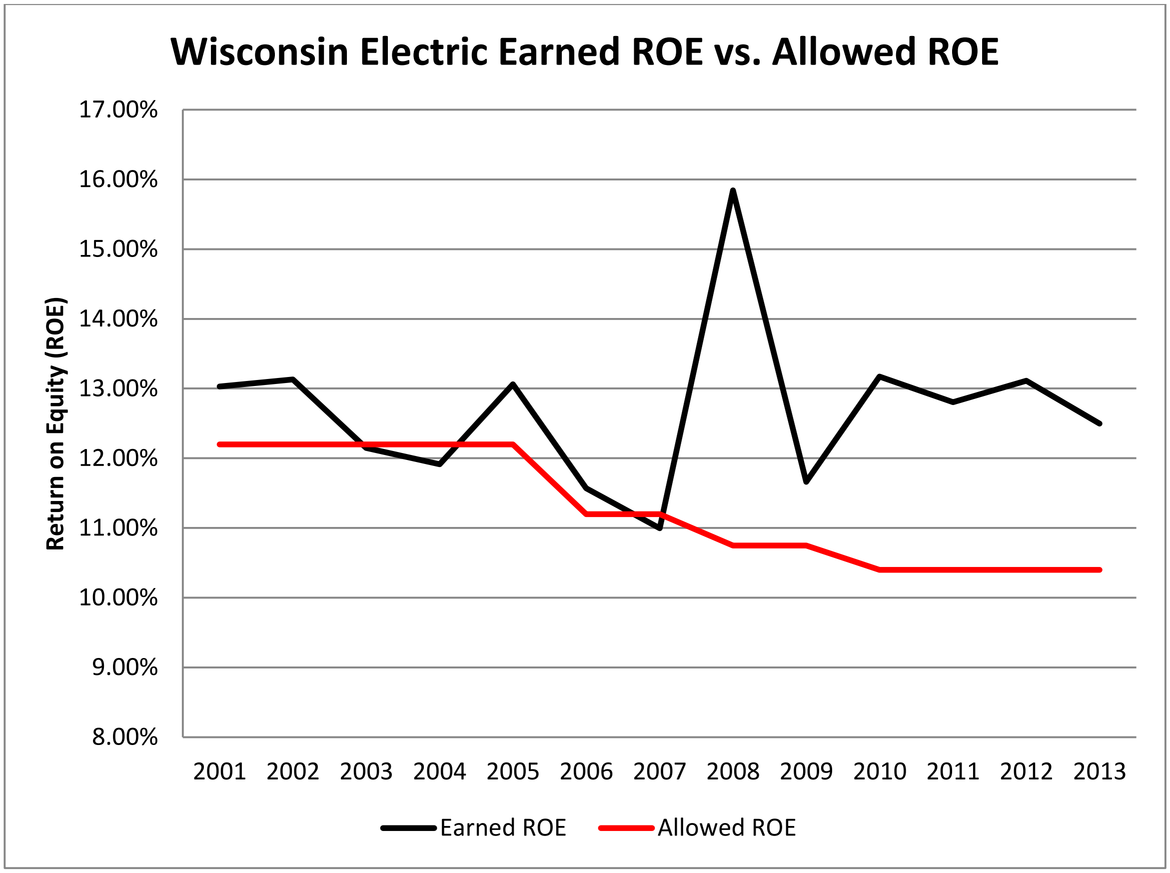
This statement of growing earnings via acquisition or merger is backed up by Value Line in its December 19, 2014, when it states the following:

> Management believes that the acquisition would enhance the company's growth rate. Wisconsin Energy's current goal is 4 percent-6 percent annually, and the combination with Integrys would boost this target to 5 percent-7 percent.

Q. Are WEPCO's regulated earnings strong in its retail jurisdictional service territory in the state?

A. Yes, WEPCO's earned return on equity (ROE) in its Wisconsin retail service territory has been very strong for several years. In the chart below, I have provided the earned ROE for WEPCO, as well as its allowed ROE.

Chart 4: Wisconsin Electric Earned ROE versus Allowed ROE



Source for raw data: Commission staff witness Mary Kettle

As can be seen in this chart, WEPCO has earned above its allowed ROE in 11 of the past 13 years. The acquisition of Integrys Energy, according to Value Line, should further enhance the earnings of Wisconsin Electric.

Q. Is there a way to calculate the earnings of WEPCO relative to the allowed return on equity over the past 13 years?

A. Yes. Since 2001, WEPCO has earned approximately $474 million more than its allowed rate of return. The calculations for these earnings can be found in the prefiled testimony of PSC staff Witness Mary Kettle.

Q. What is the return on equity now allowed by the Wisconsin PSC for WEPCO and how does that return compare to the return recently allowed by other states' regulators across the country?

A. The current regulated return on equity for WEPCO is 10.2 percent. The average return on equity allowed by state regulators in the first nine months of 2014 was 9.75 percent, excluding some legislatively mandated ROEs established in Virginia.

Q. Why are the earnings level of WEPCO relevant to this proceeding?

A. WEPCO is a strong electric utility that has achieved tremendous success in its retail service territory over the past 13 years. The proposed combination with Integrys Energy has the potential, as Value Line notes, to further enhance the earnings growth rate of the combined companies. The continued strong earnings of WEPCO should be taken into consideration by the Commission in determining what, if any, merger conditions are necessary in this acquisition proceeding so as to be fair and reasonable to consumers and stockholders.

Q. What legal statute must the Wisconsin PSC consider in reviewing the proposed acquisition of Integrys Energy by WEC?

A. Wisconsin Statute § 196.795(3) provides the specific legal standard for the Commission to follow:

> TAKEOVERS. No person may take, hold or acquire, directly or indirectly, more than 10% of the outstanding voting securities of a holding company, with the unconditional power to vote those securities, unless the commission has determined, after investigation and an opportunity for hearing, that the taking, holding or acquiring is in the best interests of utility consumers, investors and the public.

Moreover, it is my understanding, under that the provisions of Wis. Stat. ch. 196 are to be construed together to protect the consuming public.

Q. Is there a set standard of review across the country for utility mergers and acquisitions?

A. No, there is no set standard of review. There is a multitude of review standards under which state regulators must review proposed merger and acquisition transactions. These standards range from little to no review of the financial impact of the proposed deal to stringent financial and policy reviews. A review of the state merger and acquisition standards is in Ex.-PSC-O'Donnell-2, in which I listed each state's utility merger or acquisition review standard.

Q. Please describe how you developed the information found in Ex.-PSC-O'Donnell-2.

A. I developed the information found in Ex.-PSC-O'Donnell-2 by reviewing state reports produced by Regulatory Research Associates (RRA).

Q. Is there a general theme that you noticed in your review of the state merger standards?

A. Yes. The most commonly used term in the merger standards is that the resulting utility "merger," or ownership combination, must be "in the public interest." States seem to interpret this standard in different manner but, as a whole, the term generally means that the merger or acquisition must benefit the state as a whole. In other words, the transaction cannot be done with the *sole* interest of improving any single party: ratepayers; stockholders; or the local communities.

Q. How does Wisconsin's merger/acquisition standard compare to what you have seen from other states?

A. The Wisconsin merger standard is very similar to the merger standards in other states in that the merger must be "in the public interest." As in other states, there is no set definition in the Wisconsin statutes that instructs the Commission as to how to decide if the merger is in the public interest. While not readily calculable, this standard, in general, implies that the consuming public of the state, as a whole, must be better off with the merger than without it.

Q. What criteria or factors do you recommend the commission use in determining whether the proposed transaction is "in the public interest"?

A. It is important to recognize that WEC chose to acquire Integrys Energy due to the simple financial fact that Integrys Energy offered the most value to the WEC shareholders. Various arguments, such as proximity of the two companies and/or similarity of service territories, can be made such that Integrys Energy was attractive to WEC. However, in the end, the financial reality is that this transaction was acted upon for the betterment of stockholders and not necessarily consumers or the affected states in which the WEC and Integrys Energy utility subsidiaries operate. This last statement is not intended in any way to disparage the intent of the acquisition. Executives of the combining utilities have a fiduciary duty to stockholders to pursue optimization of stockholders' investment returns in the conduct of the business and affairs of the utilities.

As much as it is the responsibility of WEC and Integrys Energy management to maximize returns for their shareholders, it is also the responsibility of the Wisconsin PSC to ensure that this acquisition is fair to all parties and is, indeed, in the public interest.

The role of state regulators is to ensure that utilities operating with monopoly power provide safe and reliable service at fair and reasonable rates. As such, in order for a merger to be in the public interest, the merger should either improve the service of the merging utilities or provide an identifiable and quantifiable monetary benefit to captive consumers. I do not believe it is enough for WEC and Integrys Energy to hold out the promise of potential savings to consumers. I believe the utilities need to be held accountable for either improving service or showing definite cost-saving benefits to consumers in Wisconsin.

III. REVIEW OF PAST UTILITY MERGERS ACROSS THE UNITED STATES

Q. Other than analyzing state utility merger standards, what other information did you review in your analysis of state treatments for utility mergers?

A. The primary intent of my merger analysis review was to determine how the various states handled the matter of consumer benefits in merger applications. This type of analysis differs from the opined estimate provided by WEC's witness John Reed (Direct-WEC-Reed-17; ln.16-19) that the merger might result in synergy savings of 3 percent to 5 percent of non-fuel O&M expenses. My analysis looked specifically at how other state commissions treated consumer benefits and not at forecasted benefits provided by utility personnel that may, or may not, materialize.

Q. Please describe how you developed the list of mergers to review for your analysis

A. I reviewed the Regulatory Research Associates (RRA) report for each state and analyzed only those state merger applications (simply, "mergers" hereinafter) that occurred after 2004. I omitted mergers that involved electric cooperatives or municipal utilities as those mergers were not comparable to the merger of two diversified investor-owned utilities.

Once I identified the state merger case, I then determined the conditions imposed as part of the merger approval/denial as well as whether the state regulatory authority required the merging utilities to offer consumers a rate freeze or rate credit or whether the regulators required any financial/creditworthiness standards.

Q. How many total state merger proceedings did you review in your analysis?

A. I reviewed 72 state merger proceedings. The full list of mergers that I reviewed can be found in Ex.-PSC-O'Donnell-3.

Q. Of the 72 state merger proceedings that you reviewed, how many of the merger applications were ultimately passed by state regulators?

A. In 67 of the 72 merger cases I reviewed, the merger cases were ultimately approved by the state regulators. In five of the cases, the merger application was either denied or withdrawn.

Q. In the cases you examined, how were the interests of consumers taken into account in the merger approval process?

A. Each state has a varied merger review process. In general, most of the merger cases involved a monetary savings being passed onto consumers as part of the approval process. The savings took the form of outright credits on consumer bills, rate freezes, rate base offsets, or operating expense offsets.

Q. How many merger cases involved monetary compensation to consumers as part of the approval process?

A. Of the 67 cases that gained approval, 45 of those cases involved the state regulators requiring either an upfront rate credit to consumers, a rate freeze, a rate base write-off, or an operating expense write-off.

Q. Please describe some of the cases where state regulators required upfront rate credits for consumers.

A. In 2012, the Connecticut Department of Public Utility Control approved the merger between Northeast Utilities and NSTAR. As part of this merger, the Connecticut regulators required the merging companies to provide a one-time $25 million credit to consumers.

The Indiana Utility Regulatory Commission, in 2006, approved the sale of Cinergy to Duke Energy (Duke). In doing so, the Indiana commission required a one-time rate credit of $40 million of Indiana consumers.

State regulators in Maryland approved the 2011 merger between First Energy and Allegheny Energy, which was the owner of Potomac Edison. As part of the merger approval, the Maryland Public Service Commission required that Potomac Edison consumers receive a one-time credit of $6.5 million.

Each case cited above is different and the amounts cited above should not be taken in isolation. Instead, the credits as cited above should be examined relative to the size of the merger and can be measured in terms of the credits as a percentage of non-fuel and purchased power operations and maintenance (O&M) expenses. Such a comparison is discussed later in this testimony.

Q. Please list some of the merger cases where state regulators approved rate freezes as part of decisions regarding merger applications.

A. Arkansas Western Gas (AWG) was acquired by SourceGas in 2008. In that case, the Arkansas Public Service Commission approved a five-year rate freeze for consumers in Arkansas.

In 2008 Aquila's gas operations in Missouri were sold to Empire District Gas. In that case, Missouri state regulators required a three-year rate freeze.

Macquarie Partners bought Duquesne Light in 2007. As part of the approval in that transaction, the Pennsylvania Public Utility Commission stated that it would not allow a base rate increase until Jan. 1, 2010.

Q. How does a rate freeze benefit consumers?

A. As regulated monopoly companies, utilities can seek to raise rates as their costs increase. The manner in which utilities achieve the higher revenues needed for more expensive operations is to file a general rate case. If a state regulator orders a base rate freeze for a set period of time, consumers can then rest in the knowledge that cost increases over and above current rates must be absorbed by the utility, not the consumer, during the rate freeze period. Given that most mergers involve the acquiring company to spend a considerable amount of money in the early years of a merger in order to generate synergy savings, consumers can benefit from rate freezes when utilities are required to absorb such early merger transition costs. There are, however, drawbacks to the rate freeze option available to the Commission. Christopher Larson of the Commission staff discusses these drawbacks in detail in his prefiled testimony.

Q. Please explain how a rate base offset or operating expense offset benefits consumers.

A. When a utility invests in plant and equipment, it does so with the understanding that it can recover this plant and investment over time as well as earn a rate of return on the capital it invests. If, in the course of an acquisition proceeding or some other regulatory case, state regulators decide to allow a rate base offset, the utility foregoes the right to recover the cost of that asset and any corresponding rate of return. By doing so, consumer rates are lower than they would have been if the asset had been placed in rate base so that rates are raised to pay for the asset.

An operating expense is similar to a rate base offset in that state regulators have chosen not to allow recovery of a specific expense incurred by the utility. An example of an operating expense offset is in the merger between Fortis and CH Energy Group, which is the parent of Central Hudson Gas & Electric. In that merger, New York regulators had several merger conditions, one of which was a requirement that Central Hudson Gas & Electric forego recovery of $35 million of deferred regulatory expense (primarily storm costs).

Q. Did your review of these merger cases include an analysis of the level of financial synergies that petitioning utilities presented in their applications for merger approval?

A. No, such a review was beyond my scope of work for Commission staff in this case.

Q. Do you believe WEC and Integrys Energy should have provided more evidence to the Commission as to possible financial synergies that may evolve from their combination?

A. Yes, I fully understand and accept that WEC has a financial and corporate responsibility to its stockholders to seek to keep as much of the merger savings for stockholders as possible, barring extenuating circumstances. As such, it is completely understandable that WEC would present a case where it informs the Commission that it has no *definitive* understanding of potential merger savings from the combination of WEC and Integrys Energy. Unfortunately, the application in this case does not provide evidence of estimated benefits to this Commission to justify approval of the acquisition.

Q. Please explain why you believe WEC and Integrys Energy should have provided more evidence to justify this proposed merger.

A. As noted above, the merger between WEC and Integrys Energy is a $9.1 billion transaction and it is easy to understand why the Integrys Energy board voted to approve this merger. Integrys Energy stockholders were achieving a large stock premium from

WEC in this acquisition. However, it is hard to understand how the board of WEC could have voted to pay such a large acquisition premium adjustment to Integrys Energy without a detailed savings analysis for the combined companies.

Q. In your experience with other state regulators, have you seen a detailed financial analysis showing areas where the merging utilities expect to find synergy savings?

A. Yes. In the 2005 acquisition of Cinergy by Duke, I did see this type of detailed financial analysis. In Ex.-PSC-O'Donnell-4, I have provided an exhibit filed by a Duke employee that does provide summary details as to where Duke felt, at that time, it would create merger synergy savings. As can be seen in this exhibit, the Duke witness listed the following areas and associated savings estimates which the utility expected to create merger savings: administrative and general overhead (A&G) expenses; association dues; benefits; director fees; facilities; insurance; inventory; professional services; shareholder services; transportation; information technology; supply chain; and fuel. This same document also provided the following areas and associated transition costs estimates: separation costs; retention costs; relocation costs; system integration costs; directors and officers liability tail coverage; regulatory process costs; facilities integration costs; internal/external communications; and transition and transaction costs.

In addition to this document in North Carolina, I have also provided a similar analysis that was filed before the Washington Utilities and Transportation Commission in the case involving the acquisition of Pacificorp by MidAmerican Energy in 2007. Again, in that case, the petitioning utility provided a detailed list of expenses where it believed it would find synergy savings. These areas involved corporate overhead, insurance, service provide to affiliates, and A&G reductions.

Q. Do you know if either WEC or Integrys Energy have examined potential merger savings and determined a dollar value for those savings?

A. [redacted]

Q. Do you know of any financial publication that has estimated the synergy savings expected to result from this acquisition of Integrys Energy by WEC?

A. [redacted]

IV. CUSTOMER IMPACTS IN UTILITY MERGERS

Q. In the states that offered consumers monetary rate credit savings, were you able to quantify the rate credit in any manner?

A. Yes. As stated previously, in 45 of the 67 state merger proceedings that were approved by state regulators and were part of my analysis, consumers received benefits in the form of rate credits, frozen rates for a set period of time, rate base write-offs, or operating expense write-offs.

Of the 45 state merger cases in which I found Commissions gave some monetary benefit to consumers, I was able to calculate a rate credit as a percent of non-fuel/non-purchased power O&M expenses in 28 of those cases. I found rate freezes as part of nine of the state merger approval cases. In three cases, either a rate base write-off or an operating expense write-off was ordered in the final disposition of the case. In some cases where rate credits were ordered, I was not able to find sufficient data in order to calculate the corresponding rate credit percent of non-fuel/non-purchased power O&M expenses.

Unfortunately, it is not possible to calculate the monetary impact of a rate freeze. Obviously, the longer the rate freeze, the more likely it would be for consumers to benefit.

The value of rate base offsets and operating expense offsets can be calculated but, to do so, these ratemaking mechanisms involve financial forecasts that involve assumed depreciation rates and/or amortization schedules. For the purposes of this analysis, I did not attempt to calculate the value of a rate base offset or operating expense offset.

Q. Why did you compare the rate credit percent cut to non-fuel/non-purchased power O&M expenses?

A. Fuel and purchased power expenses are variable costs that are, essentially, pass through expenses to consumers. The larger economy of scale that comes with a merger may help in the procurement of fuel and purchased power, but the only way to significantly cut these expenses in a merger is to combine the generation portfolios and change the re-dispatching of the plants to maximize efficiencies. An example of fuel cost savings that were promised in a merger is the 2012 merger between Duke and Progress Energy. Ken Detmer of the Wisconsin staff did analyze generation planning in this case and discusses his findings in his prefiled testimony.

Non-fuel/non-purchased power O&M expenses represent overlapping areas between companies. These areas include departments such as information technology, legal, accounting, engineering, lobbying, and public relations. I compared the rate credit to these areas as these departments represent areas where most synergy savings are found in mergers.

I also note that Witness Reed, in his prefiled direct testimony for WEC, also cited synergy savings as a percent of non-fuel O&M expenses as a basis for potential future merger savings.

Q. What sources did you use to find the non-fuel/non-purchased power O&M expenses used in your calculations?

A. I used a variety of sources to obtain the rate credit/cut values as well as non-fuel/non-purchased power. These sources included the previously cited RRA reports as well as 10-K reports to the Securities Exchange Commission (SEC), data from the Energy

Information Administration (EIA), stockholder annual reports, FERC Form 1 reports, state surveillance reports, and news media reports.

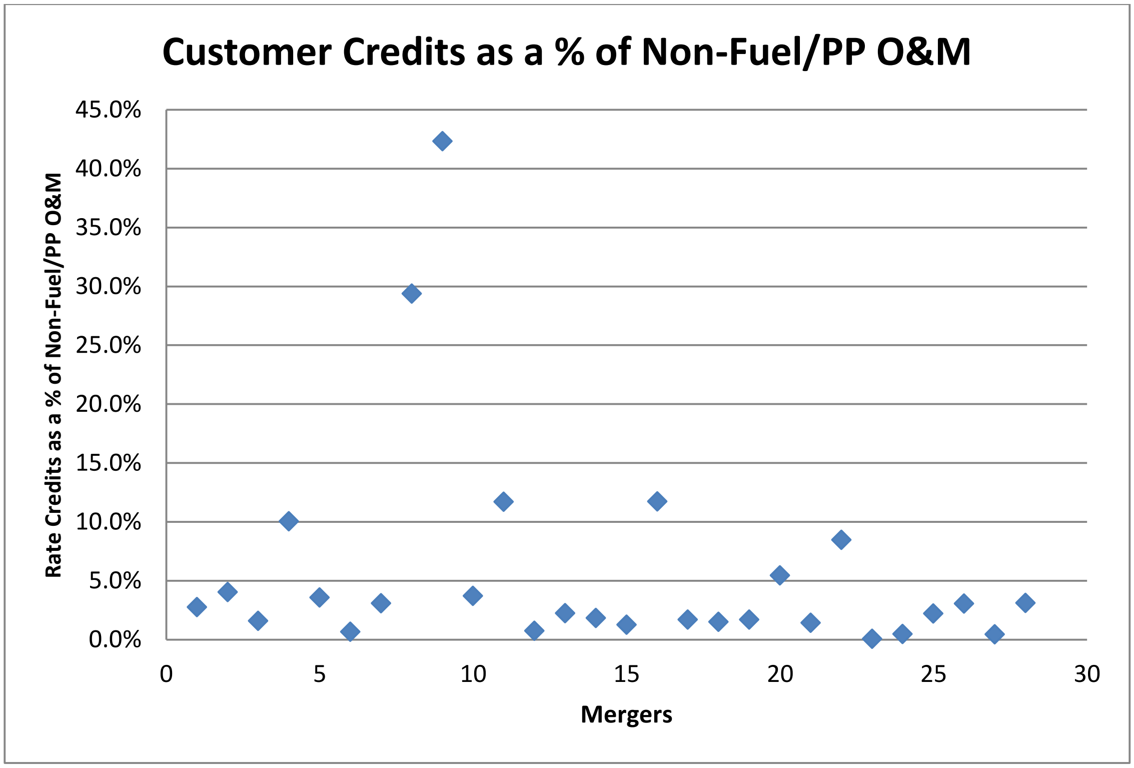
Q. Please explain how you made the calculations to determine each case's rate credit as a percent of non-fuel/non-purchased power O&M expenses.

A. Determining the rate credit or cut offered in each state merger case was relatively straightforward. I was able to find this value from RRA reports and various news media sources. Calculating the non-fuel/non-purchased power O&M expenses was more complicated and, often times, involved a financial ratio analysis that allowed me to isolate the retail portion of the non-fuel/non-purchased power O&M expenses for the state in question and for a particular year. Once I had a state merger rate credit and a non-fuel/non-purchased power O&M expense level, I simply divided the credit into the expense to calculate the ratio.

Q. What were the results of this analysis?

A. The results of this analysis can be seen in Ex.-PSC-O'Donnell-5 and show a wide range of results. Of the states that required some form of rate concession to consumers as part of an approved merger, the ratio of the rate credits to non-fuel/non-purchased power O&M expenses ranged from less than 1 percent, such as the First Energy/Allegheny merger decision in West Virginia in 2011, to over 40 percent, as in the Constellation/Exelon merger in Maryland. The results of this analysis can be seen in the graph below.

Chart 5: Rate Credits as a Percentage of Non-Fuel/PP O&M Expenses



Q. How do you recommend the Commission use the data as found in Ex.-PSC-O'Donnell-5?

A. As I have previously stated, a utility provides a basic monopoly service that can be measured by service reliability as well as price. This acquisition by WEC of Integrys Energy does not involve reliability issues but is for financial reasons. If this Commission believes that the public interest requires that customers receive a stated monetary benefit from the merger, I recommend the Commission review the details of Ex.-PSC-O'Donnell-5 to determine a range of values for a possible rate credit for Wisconsin consumers.

Q. Do you have a suggestion as to a range?

A. Yes, I do. When reviewing the data found on Ex.-PSC-O'Donnell-5, it is clear that most of the state merger proceedings resulted in rate cuts/credits that were less than 5 percent of non-fuel/non-purchased power O&M expenses. In fact, 75 percent of the cases (21 of the

28 analyzed) involved rate cuts that were approximately 5 percent or less of non-fuel/ non-purchased power O&M. However, on the upper end of the spectrum, there are only 2 cases in which the rate cuts were greater than 15 percent of non-fuel/non-purchased power O&M. Hence, a review of Ex.-PSC-O'Donnell-5 shows that the results were heavily skewed to the lower end of the range.

If the Commission believes that consumers should receive an upfront monetary benefit from this merger, the Commission may wish to consider a figure within a range of customer credits from 2 percent to 4 percent of non-fuel/non-purchased power O&M expenses.

Q. How does your recommended range of a rate credit of 2 percent to 4 percent of non-fuel O&M costs compare to other estimated synergy savings for this combination of WEC and Integrys Energy?

A. [redacted]

Q. Can you quantify the monetary value of your recommended rate credit of 2 percent to 4 percent of non-fuel/non-purchased power O&M expenses?

A. Yes, with the assistance of Commission staff witness Christopher Larson, I developed Table 1 below to show the impact of this suggestion on each utility involved in this acquisition.

Table 1: Impact of O'Donnell Rate Credit Suggestions

Utility	Estimated 2015 Non-Fuel O&M per Rate Case Orders	First year merger ratepayer credits			
		% of non-fuel O&M		$000s	
		Low end of range	High end of range	Low end of range	High end of range
WEPCO	$1,241,406	2.00%	4.00%	$24,828	$49,656
Wisconsin Gas	$104,732	2.00%	4.00%	$2,095	$4,189
WPSC Electric	$219,444	2.00%	4.00%	$4,389	$8,778
WPSC Gas	$59,887	2.00%	4.00%	$1,198	$2,395
WEGO	$62,542	2.00%	4.00%	$1,251	$2,502
VA Steam	$16,969	2.00%	4.00%	$339	$679
MC Steam	$12,562	2.00%	4.00%	$251	$502
				$34,351	$68,702

Mr. Larson has submitted testimony in this case in which he outlines specific suggestions (rate credits, write-offs of deferred costs, etc.) for the Commission to consider for each utility listed above.

Q. If the Commission chooses to require a rate cut for consumers, how long would you recommend the rate cut last?

A. The analysis that I performed in Ex.-PSC-O'Donnell-5 was based on rate cuts, rate freezes, or rate base/operating expense offsets in the first year after the merger. Hence, my recommendation would be that the rate cut should last no longer than the first year post-merger.

Q. What are your concerns about recommending a rate freeze in this case?

A. Wisconsin utilities typically have rate cases every two years and are allowed to true-up fuel costs annually. In essence, the utilities are in "rate freezes" that last two years after the issuance of the biennial rate case order. The Commission issued its final decision in Docket 5-UR-107, which sets the rates for WEC's utilities, for the 2016 and 2017 test years, on December 23, 2014. Similarly, the Commission set the 2015 rates for

Wisconsin Public Service Corporation (WPSC) in Docket 6690-UR-123, on December 18, 2014. However, as the target of the acquisition, I would expect that WPSC would achieve greater savings in the short term. As a result, I believe that establishing a rate freeze as a merger condition in this case will not provide consumers with additional benefits.

Q. Do you have any further recommendation for the Commission on the matter of a possible consumer rate credit?

A. It is clear that the new combined company, WEC Energy Group, will incur transition costs in the early part of the combination process. It is equally clear that the post-merger company will seek recovery of these costs in the biennial rate cases. To account for these expenses and customer benefits, I recommend that all customer benefits and all transition costs be followed closely for a period of five years. If, at any time in the first five years after the acquisition closes, transition costs exceed benefits, customers should receive a rate credit for the difference between costs and benefits. At no point in the process should expenses charged to ratepayers exceed the benefits achieved as part of the acquisition process.

Lastly, I also recommend this Commission implement a "favored nation" clause as a condition of the merger. Such a clause would guarantee Wisconsin consumers would receive savings or protections given by WEC as a result of conditions established in other jurisdictions. Such a guarantee is, in my opinion, a matter of fairness to Wisconsin consumers.

Q. Can you cite other mergers in which a most favored nation clause has been part of the merger conditions?

A. Yes, in the 2006 merger between Pacificorp and MidAmerican Energy Holdings, the California Public Service Commission approved the acquisition contingent upon citizens in California obtaining the pro rata share of savings that were approved by other state regulatory commissions that also had to approve the merger.

In addition to the above-stated merger, Duke Energy agreed to a most favored nation clause in its acquisition of Progress Energy in 2012. Below is a statement from the settlement between Duke and the South Carolina Office of Regulatory Staff:

> Most Favored Nation
>
> 14. PEC and DEC agree to provide their respective South Carolina retail customers the jurisdictional equivalent benefits (including regulatory conditions as mutually agreed upon) to that provided to PEC's and DEC's North Carolina retail customers. Application of this methodology is intended to ensure that South Carolina retail customers receive the benefit of a "Most Favored Nation" status with regard to the sharing of net merger savings. In no event will the application of the methodology cause South Carolina retail customers' share of net merger savings to be reduced.

The favored nation clause is simply a tool that regulators can use to protect the interest of their state's citizens relative to what other states receive in concessions for merger approval.

V. REVIEW OF COMPANY WITNESS REED'S TESTIMONY

Q. How do you respond to Mr. Reed's assertion that it is normal for utilities to file merger applications without a firm determination of potential savings?

A. As discussed above, I have been involved in utility merger applications where detailed synergy savings calculations were performed. Mr. Reed does not, in his prefiled testimony, discuss exactly how he developed his list of companies that did not file testimonies showing detailed savings. In my opinion, Mr. Reed would have been better served looking at all mergers over the past ten years and providing an analysis of those companies that did and did not provide detailed synergy savings in their merger applications. Based on his pre-filed testimony, it appears that Mr. Reed only provided cases that support his assertion that filing of detailed synergy savings analyses is not needed for this application before the Commission. Such one-sided statements are not helpful for the Commission in its ultimate disposition of the acquisition application.

Q. Has Mr. Reed always advocated that it was not important for utilities to perform synergy savings analyses in merger cases?

A. No. Prior to his recent appearances as a witness for utilities, Mr. Reed was actually a witness for at least one consumer group. In 1986, Mr. Reed appeared as a witness on behalf of Amax Magnesium Corp., which was a large industrial consumer of electricity, in the merger application of Utah Power & Light and Pacificorp. In that case, Mr. Reed argued very vehemently in favor of the petitioning utilities performing a detailed financial analysis of the merger benefits and costs as they relate to his particular client, Amax Magnesium. Below is an excerpt of Mr. Reed's cross-rebuttal testimony in that case:

> Interruptible customers are a separate class of customers whose interests this Commission is obliged to consider. Yet, the Division's evaluation of the merger's impact on Utah's economy completely ignores them. Leaving these matters to future negotiations results in a lessening of this Commission's ability to utilize its jurisdiction effectively to protect the interests of all Utah ratepayers. Quite simply, in future negotiations, compromises may have to be made because integration of the two systems has already occurred. These compromises do not have to be made now when the Commission still has the power to condition how that integration should occur in the first instance. This is why AMAX recommends that the Commission properly condition the merger now, before it is approved, to ensure that all classes of customers are protected. The Commission has the authority to protect its industrial customers and it should exercise it. (underline added)

In 1986, Mr. Reed was critical of Utah Commission staff witnesses and company witnesses for not taking into account the impact of the merger on his client. In 2014, Mr.

Reed is now presenting testimony on behalf of the petitioning utility and is urging the Wisconsin Commission to take a "wait and see" position on merger savings. Clearly, Mr. Reed's testimony in 1986 conflicts with his current view of utility mergers and, in my opinion, seriously undermines his position that the Commission should not require WEC and Integrys Energy to do any financial synergy study as part of this merger case.

VI. CREDIT CONCERNS

Q. In your review of merger cases from around the U.S., did state regulators establish financial standards as part of their merger approval?

A. Yes, in many cases I review, state regulators did impose financial standard conditions in the final orders of the merger cases.

Q. Please explain why some state regulators imposed financial standard conditions as part of the merger approval

A. Mergers and acquisitions often involve two parties of different credit levels becoming a single entity. When such a merger occurs, the entity with the better credit standing faces the risk that the merger may degrade its corporate credit rating. Since regulated utilities are allowed to recover reasonable operating costs, which include interest expense, state regulators approving mergers must consider the possibility of a credit downgrade to a utility it regulates that would, in turn, cause captive consumers to pay more in future interest expenses. As a result, many state regulators created "ring-fencing" provisions whereby they attempted to isolate their state's utility, thereby minimizing or eliminating the threat that consumers would, in the future, pay higher interest expenses as a result of the merger.

Q. Over the past ten years, how many mergers involved instances where state regulators imposed some sort of financial standards as part of the merger approval?

A. Of the 67 state merger cases that I reviewed and were approved by state regulators, 44 of these state applications involved financial standards for the merging entities.

Q. Please describe some of the financial standards enacted by state regulators as part of their respective merger approval process.

A. One common financial standard employed by state regulators in merger reviews is to limit the amount a subsidiary utility can pay to its parent company. The Wisconsin Commission, in the merger between WPSC and Peoples Gas in 2007, restricted WPSC from paying a dividend to its parent company, which became Integrys Energy, of more than 103 percent of the prior year's dividend.

Other states have limited dividend payments to parent companies when the utility subsidiaries equity ratio falls below a threshold level. The reason for such a restriction is to ensure that the acquiring company does not raid the bank account of the utility and leave it without adequate means to pay its expenses, one of which is interest expense.

An example of a dividend payment restriction involving a set equity ratio is the 2007 Oregon Public Utility Commission review of the merger between Cascade Natural Gas (CNG) and MDU Resources. In that merger, the Oregon regulators required their approval before Cascade made dividend payments that would lower its common equity ratio. CNG was prohibited from making dividend payments that would reduce its common equity ratio below 41 percent during 2008, 42 percent in 2009, 43 percent in 2010, 44 percent in 2011, and 45 percent thereafter.

Another financial standard imposed by some state regulators as a condition of merger approvals is the requirement of the utility and its parent company to maintain separate money pools for regulated and unregulated operations. Other state regulators have required the acquired utility to maintain its own credit rating. A more common financial standard is that the regulated utility cannot assume the debt of the parent holding company nor could it use its assets as collateral for the holding company. The 2011 approval from the Maryland Public Service Commission in the merger between FirstEnergy and Allegheny Energy involved each of the above-stated financial standards.

Q. Please describe how this acquisition will impact the financial condition of both WEC and Integrys Energy.

A. This acquisition by WEC is a situation where a financially strong company, WEC, is purchasing a financially weaker company, Integrys Energy, in a highly leveraged transaction. As a result, this acquisition will blend two companies of varying credit ratings and differing growth patterns. In essence, the acquisition of Integrys Energy by WEC has the potential to create a financially weaker WEC and a financially stronger Integrys Energy. This statement was borne out by Moody's when, on June 23, 2014, the credit rating agency changed the rating outlook to negative from stable and put the long-term ratings of Integrys Energy under review for upgrade. The rationale for these actions by Moody's are as stated below.

> The change in WEC's rating outlook to negative from stable considers that should the transaction close WEC's credit profile will deteriorate as it acquires a company with a weaker credit profile in a leveraged transaction. The negative outlook reflects the increase in WEC's holding company debt compared to the consolidated indebtedness which will hover around 20% for a sustained period of time. It further considers the introduction of integration risk given WEC's limited acquisition experience and lack of track-record in operating under the Illinois regulatory environment. WEC's negative outlook considers the expected deterioration in WEC's consolidated key credit metrics. Specifically, over the next three years, the ratio of cash flow from operations before working capital adjustments (CFO pre-W/C) to debt and Retained Cash Flow (RCF) to debt is expected to fall below 19% and 15%, respectively. These metrics are more commensurate with the upper-range of the Baa-rating category according

> to the guidelines provided for standard business risk under the updated Regulated Electric and Gas Utility Methodology, published in December 2013. However, over the longer-term horizon, Moody's expects these financial ratios will start improving such that they score well within the lower-range of the A-rating category and that the combined group will begin to report positive free cash flows, another credit positive.
>
> "The review for upgrade of Integrys' ratings largely reflects the company's plans to completely exit its retail energy services business by divesting this segment," said Lesley Ritter, a Moody's Analyst. "The lower business risk that will result from the elimination of the retail business is the impetus for bringing the ratings of Integrys one notch closer to its utility subsidiaries. Moody's will focus the review for upgrade on the divestiture of Integrys Energy Services."
> Source: Moody's Investors Service, June 23, 2014

Q. How will the merger impact the subsidiary companies of WEC and Integrys Energy?

A. In the June 23, 2014, Moody's report cited above, the credit rating agency affirmed the credit rating for the subsidiaries of WEC and Integrys Energy. However, it is generally understood that when a parent holding company is at risk of a downgrade, the credit rating of utility subsidiaries is at risk as well. Evidence for this statement can be found in a 2010 Standard and Poor's (S&P) article that states the following:

> Utility subsidiaries' ratings are linked to the consolidated group's credit quality because of the financial linkage of the parent to the subsidiary and the likelihood that, in times of stress or bankruptcy, the parent will consider the utility subsidiary as a resource to be used. Accordingly, our base-case financial analysis primarily focuses on the performance, cash flow, and balance sheet of the consolidated group.
> Source: Methodology: Differentiating the Issuer Credit Ratings of A Regulated Utility Subsidiary and Its Parent, Standard & Poor's, March 11, 2010

While Moody's has affirmed the credit rating of the WEC and Integrys Energy subsidiaries, there is still a possibility that, in the future, the new company, WEC Energy Group, could come into financial trouble and begin to take larger-than-expected dividends from the utility subsidiaries. Such an action would then put at risk the credit ratings of W Energies, WPSC, Peoples Gas, North Shore Gas, Minnesota Energy

Resources, and Michigan Gas Utilities. If the credit ratings of these utility subsidiaries are dropped, consumers in the states these utilities serve will pay higher interest costs on capital investment.

The above-stated scenario of potentially higher utility interest costs is in contrast to the "financially stronger" combined companies scenario that WEC cites in the application for this case. Indeed, this merger has the potential to do harm to consumers in Wisconsin in that a credit downgrade could cost consumers more money in higher interest costs.

Q. What actions are available to the Commission to prevent a credit downgrade to the utility entities that it regulates?

A. One action available to the Commission is one it has already taken in an earlier proceeding. In the 2007 merger between WPSC and Peoples Gas, the Commission limited the dividend payments from the utility subsidiaries to the holding company to no more than 3 percent greater than the previous year's dividend. A dividend limitation is definitely one way the Commission may deter the holding company from taking excess dividends from the utilities to fund holding company issues.

Another action available to the Commission is to limit the utility dividend payments to the holding company when the utility's equity ratio falls below a set level, or if a dividend payment would cause the utility's equity ratio to fall below that level. As can be seen in Ex.-PSC-O'Donnell-5, this type of dividend limitation has been used often by state regulators in other parts of the country. Lois Hubert of Commission staff addresses dividend limitations in her testimony and specifically ties the dividend limitation to a set common equity ratio. I refer the Commission to Ms. Hubert's testimony for these limitations, Direct-PSC-Hubert-13-16.

Another tool available to the Commission to help prevent its utility subsidiaries from being downgraded is a requirement that would prohibit any of its regulated subsidiaries from pledging its utility assets for non-utility subsidiaries or any other affiliated entity. This requirement would ensure that the assets that Wisconsin ratepayers have helped pay for over the years are not encumbered in a transaction that has nothing to do with the provision of utility service in Wisconsin. As can be found in the prefiled testimony of Ms. Hubert (Direct-PSC-Hubert-16), the Commission staff in this case is recommending a merger condition that prohibits WEPCO, Wisconsin Gas, and WPSC from lending money to, or guaranteeing the obligation of WEC Energy Group or fellow subsidiaries.

Keeping separate money pools between utility and non-regulated affiliate is also often mandated by state regulators as a condition. By keeping funds separate, regulators take comfort in knowing the funds they thought would be used for utility purposes will, indeed, be used in that manner. I refer the Commission to the testimony of Ms. Hubert (Direct-PSC-Hubert-16) for more details on financial restrictions.

Even with these tools available to state regulators, it is still possible that a merger or acquisition may result in a credit downgrade to the utilities. The reasons for the downgrade may vary but, if the downgrade can be directly attributable to actions taken by the parent holding company stemming from the merger or acquisition, the Commission has at its disposal the requirement that the utility subsidiary, and not the customer, pay the incremental cost of the higher interest expense. Again, Ms. Hubert discusses this merger condition in her testimony at Direct-PSC-Hubert-16-18.

Q. Do you have any suggestions for the Commission in regard to your credit concerns in the acquisition of Integrys Energy by WEC?

A. Yes. Moody's has already changed the credit outlook of WEC from stable to negative. Even though Moody's affirmed the credit rating WEC subsidiaries, I remain concerned that a credit downgrade of WEC could result in an accompanying downgrade to We Energies.

Because of this concern, I urge the Commission to adopt the ring-fencing provisions as outlined in the testimony of Ms. Hubert at Direct-PSC-Hubert-13-18. These ring-fencing conditions are as follows:

Dividend limitation

WEPCO/WG/WPSC: WEPCO/WG/WPSC may not pay dividends above those estimates deemed reasonable in this proceeding[1] without prior Commission approval, if, after the payment of such dividends, the actual average common equity ratio, on a financial basis, would be below the test year authorized level of 51.00/49.50/51.00 percent.[2] WEPCO/WG/WPSC shall notify the Commission if any special dividend is contemplated.

Common equity limitation

An appropriate common stock equity floor, on a financial basis for WEPCO/WG/WPSC is 48.5/47/49 percent[3]. It is just and reasonable that the applicant apply for and receive Commission approval before it issues any common stock dividend, including the forecasted dividend, if after the payment of such dividends the actual common equity ratio, on a financial basis, would be below 48.5/47/49 percent. For purposes of calculating off-balance sheet equivalents, the test year average should be used. Furthermore, any dividend declared and booked in a month where the

[1] For initial purposes, it would be the amount in the last rate case before the merger.
[2] These are the target levels last established by the Commission in a rate case proceeding.
[3] These are the lowest level of the range last established by the Commission in a rate case proceeding. (WEPCO – 48.5 percent to 53.5 percent) (WG – 47.0 percent to 52.0 percent) (WPSC – 49 percent to 54 percent).

equity falls below the floor will be presumed to have caused the equity reduction.

Lending restriction

WEPCO, WG, and WPSC may not lend money to, or guarantee the obligation of, WEC Energy nor any affiliate with which it is the holding company system. WEPCO, WG, and WPSC may not lend money to each other, nor guarantee each other's obligation without Commission authorization of the arrangements.

Capital cost risk to be borne by applicant

Any increased capital costs determined by the Commission to be related to downgrading or other credit degradation of the holding company and/or non-utility affiliates, should be removed from the cost of capital for WEPCO, WG, and/or WPSC.

Reporting requirement:

WEC Energy shall file with the Commission, within 90 days of the consummation of the acquisition, a report detailing the debt held at the WEC Group holding company and Integrys sub-holding company levels, its relationship to total holding company debt and the company's plans to reduce the debt. WEC Energy shall file with the Commission updated reports every 90 days until the debt at the holding companies declines to 15 percent of total debt.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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