

Staff's Report
Regarding Peoples Gas' Compliance with Condition 5 of Appendix A to the Commission's
June 24, 2015 Final Order in Docket No. 14-0496

October 14, 2015

Subject

Peoples Gas Light and Coke Company's ("Peoples" or "Company") compliance with Condition 5 of Appendix A to the Commission's June 24, 2015 Order in Docket No. 14-0496.

Final Order and Condition 5 of Appendix A

In Docket No. 14-0496, the Commission approved Wisconsin Energy's (WEC) merger with Integrys and Peoples subject to 47 conditions presented in Appendix A. Finding 4 on page 100 of the Order reads:

Appendix A is attached and fully incorporated into this Order; it contains the Required Conditions of Approval established by this Commission in this Order, which are indispensable conditions for approval of the proposed Reorganization and for approval of all other relief sought or granted in this Order.

The Commission's discussion of Condition 5 begins on page 29 of the Order and includes a directive to Staff to report to the Commission on the progress of the utility's plans by September 30, 2015.

As a part of the AMRP Audit process, Peoples Gas is already required to provide 1) an implementation plan for each of Liberty's recommendations, 2) an AMRP scheduling master plan, and 3) its cost plan model. In addition to those plans, Peoples Gas and Wisconsin Energy will be required to provide 4) an AMRP transition plan that provides detailed changes to the AMRP needed as a result of the Reorganization in order to ensure a seamless transition that avoids a diminishment in service.

These four plans ("Improvement Plans") shall include updated, detailed information regarding appropriate size, scope, schedule, and cost for the AMRP. Wisconsin Energy and Peoples Gas shall provide these Improvement Plans to the Commission and its Staff within 75 days of this Final Order. Staff will report to the Commission on the progress of these plans by September 30, 2015. The Staff report will be published on the Commission's website.

The Commission imposes the following as Condition No. 5 of Appendix A:

Wisconsin Energy and Peoples Gas shall provide the Commission and its Staff with the following Improvement Plans within 75 days of this Final Order: 1) an implementation plan for each of Liberty's recommendations, 2) an AMRP scheduling master plan, 3) an AMRP cost plan model, and 4) an AMRP transition plan that provides detailed changes

to the AMRP needed as a result of the Reorganization in order to ensure a seamless transition that avoids a diminishment in service.

Peoples' Response to Condition 5

The Commission directed Peoples to provide the four plans identified in Condition 5 within 75 days (by September 7, 2015).

In a July 27, 2015 letter to the ICC, Peoples' President Charles Matthews stated the Company will timely respond to Condition 5's part 1 (an implementation plan for each of Liberty's recommendations) and part 4 (a transition plan reflecting changes due to the reorganization). The letter further indicated that the Company's response due by September 7th would not include Condition 5's part 2 (an AMRP scheduling master plan) nor part 3 (an AMRP cost plan model), but would include an update on the status of those plans which are expected to be completed by November 30, 2015.

On September 4, 2015, Peoples submitted a cover letter and a 194-page compliance report to the ICC entitled, "*Peoples Gas Light and Coke Company's Compliance with Condition of Approval 5 from Illinois Commerce Commission Final Order in Docket No. 14-0496.*"¹ Consistent with the July 27th letter, the September 4th cover letter indicates this document presents a consolidated implementation and AMRP transition plan "in compliance with" Condition 5's parts 1 and 4.² Also consistent with the July 27th letter, the September submission indicates Peoples intends to present plans for parts 2 and 3 by November 30th, the delay primarily attributed to a change in consultants assisting Peoples on the AMRP project.³

Organization of "*Peoples Gas Light and Coke Company's Compliance with Condition of Approval 5 from Illinois Commerce Commission Final Order in Docket No. 14-0496*" and Staff's Comments/Observations

Page 1: "Status Tracker" table indicates the implementation status of each of the 95 Liberty recommendations. The table identifies sixteen as "Implemented," two as "Implemented an Alternative," seventy-five as "Implementation in Progress," and two as "Action Pending Further Review/Study."

Staff Comments

Staff notes that Liberty is reviewing Peoples' implementation plans.⁴ Staff meets regularly with Liberty; and jointly with Liberty and the Company⁵ as needed. Staff is also reviewing the Company's implementation plans and, together with Liberty, will monitor the Company's

¹ Peoples later submitted the public version of this document to the ICC Chief Clerk on September 23, 2015. The document is posted on e-Docket in Docket No. 14-0496.

² See September 4th letter from Andrew Hesselbach, Peoples' Vice President – Construction.

³ Prior to the merger, Peoples relied on Jacobs Engineering Group for much of AMRP management. After the merger, the utility ended its contract with Jacobs Engineering and on September 4, 2015, and hired Burns and McDonnell to provide the plans required by parts 2 and 3 of Condition #5.

⁴ See Liberty Consulting's First Quarterly Report, September 30, 2015.

⁵ "Company" may refer to Peoples only, or to the new organization WEC/Peoples. At times, the plural "Companies" is used depending on the context of the discussion.

progress in completing the implementation process. Updates will be presented in Liberty's quarterly reports and Staff's periodic reports to the Commissioners.⁶

Staff notes Peoples' and WEC's emphasis on the newness of AMRP to the WEC organization. For example, the September 4th cover letter states "...many changes have occurred. However, WEC and Peoples Gas caution that two months is insufficient to have fully developed a strategy and detailed implementation plan for AMRP."⁷

Also from the September 4th cover letter: "While much work remains WEC and Peoples Gas have made substantial progress in restructuring program management, developing enhanced processes and systems, and implementing specific recommended changes. Definitive action plans are in place for achieving other improvements. Specific plans for other items remain under development, which is not surprising given that WEC acquired Peoples Gas only two months ago."

Clearly, Staff's and the Commissioners' foresight to establish a two-year implementation process is key to developing and monitoring the companies' new approach to AMRP. Liberty's First Quarterly Report identifies the Company's lack of progress in implementing Liberty's recommendations and refers to delays which Peoples Gas attributes primarily to a near-term focus upon changes in Company and AMRP management.

Pages 2-16: "Chapter B. Peoples Gas Executive Response." Peoples Gas has identified and organized into four overarching categories twenty-seven of Liberty's ninety-five recommendations. The first three categories are linked by their focus on a new project organization including, but not limited to, building a new organization, identifying project resource needs, studying the interaction among AMRP and non-AMRP construction areas, and defining the roles for new positions. The fourth category addresses performance metrics and reporting. The four categories are:

1. Organizational Design (pages 3-6)
2. Project Management Office transition (pages 7-9)
3. Program/Project Management (pages 10-13)
4. Performance Metrics and Reporting (pages 14-16)

Staff Comments

Staff notes the Company clearly states it is in a ramp-up mode. For example, regarding the new leadership team: "Peoples Gas expects that some of these positions will be filled by select individuals..." and "...remaining openings on the capital construction team will be filled over time...." (Sept. 4th compliance report, p. 3.)

The Company agrees with Liberty's recommendation to use project managers and notes: "There are several options as to how this function could be carried out most effectively and

⁶ Staff intends to frequently communicate with the Chairman and Commissioners.

⁷ Excerpts quoted in this report may be read in context in Peoples' September 4th letter and compliance report, which are available on e-Docket in Docket No. 14-0496. (See, September 23rd e-Docket entry.)

efficiently.” (Sept. 4th compliance report, p. 4.) The Company reports it is evaluating its options.

Staff observes that Chapter B of the September 4th compliance report contains very broad discussions of changes underway at Peoples, but any detail of a plan for transitioning AMRP seamlessly and avoiding diminishing customer service is absent.

Regarding performance metrics and reporting, Liberty concluded that improvements in data collection and reporting as well as how that information is used to optimize performance are key to successful AMRP implementation. Liberty says regular and comprehensive performance reporting and analysis will contribute to improvements in project areas such as scope control, cost management, procurement and contracting, performance improvements, planning/budgeting/estimating, and auditing.

In its September 4th compliance report, pages 14-15, Peoples agrees that “Well-structured metrics and insightful reporting are vital to effective project management.” Peoples’ response, however, is set in a future tense: “Peoples Gas will improve upon the formats and content of reports generated in the past.”; “Going forward, the Peoples Gas team will make greater use of monthly and annual forecasting”; “Peoples Gas agrees it should upgrade AMRP performance metrics”; and “While the transition is still underway and the project team is being reformed, Peoples Gas expects that by the end of November 2015 improved data sets and reports on core metrics will be up and running,”

Staff finds it important to highlight the compliance report’s references to its planned updates on the status of implementation progress by November 30, 2015. See references to actions scheduled for November 2015 on page 4 of the September 4th cover letter and on pages 2, 15, 81 and 122 of the September 4th compliance report. In addition to periodic updates to the Commissioners, Staff will plan on an extensive review of implementation progress following the companies’ November 30 update.

Pages 17-127: Peoples’ responses to the remaining sixty-eight Liberty recommendations (ninety-five total minus the twenty-seven grouped in Chapter B of Peoples’ compliance report). (See above discussion of Chapter B’s four categories.)

Staff Comments

Liberty Consulting is reviewing the Company’s responses to the remaining recommendations in Chapters C through U of Liberty’s report. Peoples’ submission includes implementation plans for many of Liberty’s recommendations, but Liberty has reported to both Staff and Peoples that the implementation plans are unacceptable.

Liberty’s Phase II task is to conduct a structured, two-year program of monitoring the effectiveness of Peoples’ implementation of Phase I’s 95 recommendations. Liberty identifies five characteristics of an effective and monitorable implementation plan:

- 1. The Company understands the recommendation*
- 2. Identify differences between past circumstances and post-implementation circumstances*

- 3. Identify deliverables that will demonstrate implementation of the recommendation**
- 4. Identify specific, ordered tasks for the implementation process**
- 5. Define measurements to judge implementation progress and depth**

Staff is aware that the Company and Liberty are not in agreement on the second item. Liberty's report states the Company is reluctant to "explain what will be different after implementation and how resulting differences will fulfill the recommendation's purpose." Liberty stresses it is important to identify past methods or problems in order to determine an appropriate implementation plan. The Company's perspective is that new management and methods need not rely on past problems to design an effective program. Staff will discuss this issue with Peoples and Liberty. Staff will follow-up on this matter.

Liberty stated that these implementation plan elements are lacking for each recommendation in the Peoples submission to the Commission. On September 15, 2015, in a meeting in Chicago with Liberty (in Chicago) and Staff (by telephone), Peoples agreed that its submission did not contain these elements. Peoples also mentioned that Jacobs Engineering previously had developed implementation plans for Liberty's recommendations with far more detail than the Peoples' submission included, but Peoples' new management was not comfortable adopting those detailed implementation plans as its own.

Staff directed Liberty to clearly state its expectations regarding the format of Peoples' implementation plan responses and for any subsequent requests for information. Staff is concerned that a lack of communication between Liberty and Peoples may have resulted in some delay.

Nevertheless, Peoples stated that it could provide implementation plans that meet Liberty's needs for each recommendation according to the following schedule:

- High priority recommendation implementation plans by the end of October 2015.**
- Most of the remaining recommendation implementation plans by the end of November 2015.**
- A small number of low priority recommendation implementation plans by the end of December 2015.**

Liberty's next quarterly report is due December 31, 2015.

Pages 128-194: Glossary and Attachments to Responses.

Matters that are Beyond the Scope of Liberty's Engagement

Liberty's first quarterly report identifies issues that will likely affect, but are outside, the scope of its work. Those issues, which may need addressed after the Company's November report is reviewed, include:

- The goals of AMRP as a standalone program and as part of the Company's overall construction program.**

- The scope of AMRP: does it continue with the combined approach of (a) high-risk pipeline replacement, (b) increase system pressure, and (c) move meter outside, or should the scope be changed?
- Completion timelines under the current or a revised scope.
- Funding mechanisms and increased cost estimates.
- Program affordability.

Staff Recommendations

The Commission's merger case Order included a directive to Peoples to produce four AMRP plans by September 7, 2015. Peoples responded to the Commission's directive with a work-in-progress. Understanding that the new organization and pre-existing AMRP challenges require the Company to review and redesign nearly all aspects of the AMRP, Staff recommends that the Commission await the results of Peoples' and Liberty's next steps, with the end of November being a key milestone, and then revisit the Company's progress.

Staff further recommends the Commission adopt and communicate to the Company the following directives:

1. Peoples Gas shall immediately notify the Commission upon determining that its November 30th date for providing Condition 5's part 2 (an AMRP scheduling master plan) and part 3 (its cost plan model) is unachievable, and propose new deadlines, as appropriate, for the Commission's consideration.
2. Peoples Gas shall immediately notify Liberty and the Commission upon determining that the agreed-to interim implementation dates are unachievable, and propose new dates, as appropriate, for the Commission's consideration.
3. Peoples Gas shall immediately notify the Commission of pipeline system safety concerns resulting from (a) any impediments or delays to AMRP, (b) delays or other complications related to the City of Chicago's permitting process, or (c) any other AMRP limitations or restrictions imposed upon the Company by the City of Chicago, and submit an action plan for resolving each issue.
4. Peoples Gas shall immediately notify the Commission of any concerns related to the Company's participation in the implementation phase of the AMRP audit, and submit an action plan for resolving any such concern.

Staff will continue to work with Liberty and Peoples, and update the Commission as required to ensure timely communication of all AMRP developments.