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BEFORE THE
ILLINOIS COMMERCE COMMISSION
BENCH SESSION
(PUBLIC UTILITY)
Wednesday, May 20, 2015
Chicago, Illinois

Met, pursuant to notice, at 10:30 A.M.,
at 160 North La Salle Street, Chicago, Illinois.

PRESENT:
DOUGLAS P. SCOTT, Chairman
JOHN T. COLGAN, Commissioner
ANN MCCABE, Commissioner
SHERINA E. MAYE, Commissioner
MIGUEL DEL VALLE, Commissioner
JOHN ROSALES, Commissioner (via video)

SULLIVAN REPORTING COMPANY, by
PATRICIA WESLEY
CSR NO. 084-002170

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2 CHAIRMAN SHEAHAN: Everybody ready to proceed in
3 Springfield?

4 MR. MATRISCH: We are, Mr. Chairman.

5 CHAIRMAN SHEAHAN: Pursuant to the Opening
6 Meetings Act, I call the May 20, 2015 Bench Session
7 of the Illinois Commerce Commission to order.

8 Commissioners McCabe, del Valle and
9 Maye are present with me in Chicago. We have a
10 quorum. Commissioner Rosales is attending the
11 Annual Meeting of the Organization of PJM States and
12 requested to participate by phone.

13 Commissioner Rosales, are you with us?

14 COMMISSIONER ROSALES: I am, Mr. Chairman.

15 CHAIRMAN SHEAHAN: I move to allow Commissioner
16 Rosales to participate by phone.

17 Is there a second?

18 COMMISSIONER MAYE: Second.

19 CHAIRMAN SHEAHAN: Is there any discussion?

20 (No response.)

21 All those in favor, say aye.

22 (Chorus of ayes.)

1 Opposed, say nay.

2 (No response.)

3 The ayes have it and Commissioner
4 Rosales is granted permission to appear by phone.

5 The first item on our agenda is
6 Liberty Consulting's Final Report and Audit of the
7 Peoples Gas Advance Main Replacement Program.

8 Presenting the Staff report and
9 Liberty's findings are Gene Beyer, Bureau Chief for
10 the Public Utilities Division of the Illinois
11 Commerce Commission; Harry Stoller, the ICC's
12 Director of Safety and Reliability; and John
13 Antonuk, President of Liberty Consulting.

14 At the conclusion of their
15 presentation, we will hear from Charles Schrock,
16 Chairman and CEO of Integrys. With Mr. Schrock are
17 John Kleczynski, President of Peoples Gas; and James
18 Schott, Executive Vice President and CFO of
19 Integrys.

20 Following Mr. Schrock's remarks, each
21 Commissioner will make a brief statement. After the
22 statements from Commissioners, we will have a round

1 of questions from the Commissioners. I will make
2 the first statement and then we will here from
3 Commissioners McCabe, del Valle, Maye, and Rosales
4 in that order.

5 At the conclusion of our discussion of
6 the audit, the Commission will briefly recess before
7 proceeding to the rest of our bench agenda.

8 Mr. Beyer, please proceed with your
9 report.

10 PRESENTATION

11 BY

12 MR. BEYER:

13 Thank you. Thank you and good
14 morning. I'm Gene Beyer, Public Utilities Bureau.

15 My part of the presentation is to
16 provide background to the AMRP and to lead into the
17 audit findings and recommendations themselves at
18 which time I'll turn it over to Mr. Antonuk from
19 Liberty Consulting Group.

20 The Peoples' Cast Iron and Ductile
21 Iron Replacement Program had its roots back in 1981.
22 The company looked at various facilities and they

1 looked at the age of the facilities. They looked at
2 the size of the facilities and begin retiring plants
3 that were considered leak prone at that time. At
4 that time there was about 3,450 miles of cast iron
5 and ductile iron main in Peoples' system. That's
6 out of a little over 4,000 miles, so you can see
7 that the majority of their pipes in the ground were
8 of this material.

9 When we got to 1993, Peoples Gas
10 developed what they call a "Uniform Main Ranking
11 Index," and, in addition to looking at the age and
12 the size of the pipe, they also began looking at the
13 condition of the pipe, how many cracks they have
14 seen, how many breaks, visual observations that tell
15 them what the condition of the pipe looks like, the
16 incidental leaks, how many repairs, that sort of
17 thing, So they enhanced the testing by which they
18 were going to rank the mains that they thought
19 needed replacing.

20 For the next dozen or so years, they
21 retired about 42 miles of cast iron and ductile iron
22 mains every year and they gave additional attention

1 to risk factors and public improvement project
2 needs. Public improvements would be what would
3 include coordination with the city on various
4 projects going on at the city.

5 When we get to 2005, Peoples again
6 modified their way of reviewing the cast iron and
7 ductile iron facilities and they're going to look at
8 the future cost of operation and maintenance now to
9 see if maybe there's an economics factor built into
10 this, too, not only are we looking at the age, the
11 condition, coordination with the city, but now we
12 are looking perhaps there's a way to save some money
13 now by doing things now rather than waiting and
14 doing them later when they might be more expensive.

15 By the end of 2009, and now we are
16 about close to 20 years from the beginning, Peoples
17 reduced the percentage of their cast iron and
18 ductile iron main in its distribution to 46 percent,
19 and back in '81 it was 86 percent, and now we are at
20 46 percent, so quite a bit of progress was made from
21 1981 to the end of 2009.

22 A rate case followed, and in 2010 the

1 Commission issued an Order approving the company's
2 proposal for an Accelerated Replacement Program for
3 cast iron and ductile iron main, and we also, at the
4 Commission, approved a special cost recovery for
5 that project called "Rider ICR."

6 The docket number -- the docket at
7 that time established Rider ICR, which is
8 Infrastructure Cost Recovery, as a special recovery
9 mechanism to recover the costs associated with
10 accelerated replacement. That Order came out in
11 2010. About a later the court found that special
12 cost recovery mechanisms to be illegal and
13 considered single-issue ratemaking.

14 People then had an accelerated program
15 that they had in progress and no longer had a cost
16 recovery mechanism to match up with it, and so a
17 year later, 2012, they filed another rate case to
18 help them to get recovering costs. They cited the
19 loss of Rider ICR as a recovery mechanism for
20 requiring the need for their rate case.

21 So now we are in the second rate case
22 in 2012 and we have got a couple of years of

1 replacement program under our belts, and in 2012
2 Staff begins looking at the company's -- the
3 company's progress with replacing the pipe, how it's
4 going on schedule, what it costs.

5 Staff proposed some adjustments in
6 that case for what we found to be cost overruns and
7 schedule overruns, and we also provided those as an
8 alternative a proposed two-phase investigation which
9 would include an outside consultant.

10 That two-year two-phase investigation
11 included a one-year investigation that we now
12 concluded and for which we now have the Liberty
13 final report, and the other phase is a two-year
14 verification phase where Liberty will check Peoples
15 Gas' work in implementing the recommendations that
16 are made in this report. Staff will be involved in
17 that, too. We will get reports from Liberty and
18 from the company on a regular basis.

19 During this first year phase, I
20 believe we met with Liberty on a weekly call and
21 more often as needed, and I expect we'll continue to
22 do that in Phase II.

1 As you know, the Commission selected
2 Liberty Consulting Group to handle the audit. After
3 Peoples filed their rate case to help them recover
4 some of the costs that they had hoped to recover
5 under the previously approved, but later stricken,
6 Rider ICR, the General Assembly, through Public Act
7 980057 added Section 9-220.3 to the Public Utilities
8 Act. That authorized the larger gas companies to
9 employ a mechanism for the rider that would help to
10 recover the costs of an Accelerated Main Replacement
11 Program, among other things.

12 Throughout the negotiations of that
13 law, even though it was -- it was intended to focus
14 on the Cast Iron Ductile and Main Replacement,
15 replacement of leak-problem facilities, there were
16 other areas that all the parties agree, all the
17 parties to those negotiations agree, should be part
18 and parcel of the law, too. It should be allowable
19 to be recovered through the new special rider
20 mechanism.

21 Some of those, not all, but some of
22 those projects that are allowed in Peoples Gas'

1 rider include installation of facilities to retire
2 the cast iron and ductile iron gas distribution
3 facilities, and that's the primary, primary purpose
4 of it, but there are related areas as well.

5 There's a relocation of gas meters
6 from inside to outside customer facilities. There's
7 the upgrading of the gas distribution system from a
8 low-pressure system to a medium-pressure system, and
9 then there are two others regarding high-pressure
10 transmission pipelines and installation of regular
11 stations that might also play into Peoples Gas' AMRP
12 Program.

13 The core of their program is really
14 the first three items, the installation of
15 facilities to retire the leak-prone facilities,
16 relocation of gas meters and the upgrading from low
17 pressure to medium pressure, and those represent the
18 core of Peoples' AMRP program as we know it right
19 now.

20 This next slide is just to make sure
21 we are all aware that PHMSA, the Pipeline and
22 Hazardous Material Safety Administration, an arm of

1 USDOT, which oversees our ICC pipeline safety
2 program, has also been very interested in
3 replacement of retirement of facilities that are
4 considered prone to leaks, high-risk facilities.

5 They have issued three advisory
6 bulletins to natural gas operators. They wanted to
7 know about each company's review, a comprehensive
8 review of cast iron replacement. They wanted to
9 know where the talks were on Accelerating Pipeline
10 Replacement and how to rehabilitate and replace
11 high-risk pipelines.

12 There's also a Distribution Integrity
13 Management Plan, and that kind of is a new way to
14 rank some of these mains to look at the various
15 risks associated with what facilities were in the
16 ground, and we worked, the ICC Pipelines Safety
17 Program worked, with all the utilities to help
18 develop that Distribution Integrity Management Plan
19 for all of them.

20 Briefly, on the consultant selection
21 process, we followed the contracting process as set
22 forth in the Illinois Procurement Code, as specified

1 by the Illinois Executive Ethics Commission, CMS,
2 and Illinois Procurement Policy Board.

3 We issued a request for proposals
4 November of 2013. We included 33 areas that we
5 wanted the bidders to address in their proposals.
6 Appendix A of the Liberty report list those 33
7 issues. The ICC received one proposal for this
8 project. We continue to do our job as far as
9 evaluating that proposal, gives us pre-determined
10 measurements to see if they satisfy the demands of
11 the RFP and what we look for in these sorts of
12 projects, and we determined that Liberty did pass
13 the test and satisfied the requirements of the RFP.

14 They began their work in 2014. They
15 just recently issued their 2015 report, and that I
16 think brings us up to today.

17 Is there anything -- you want to take
18 care of that?

19 MR. ANTONUK: Yes.

20 MR. BEYER: That brings us up to today, and
21 unless there's questions, I would like to
22 introduce --

1 CHAIRMAN SHEAHAN: We will take questions at the
2 end --

3 MR. BEYER: Okay.

4 CHAIRMAN SHEAHAN: -- after your presentation.

5 MR. BEYER: This is Mr. John Antonuk. He's
6 president of Liberty Consulting Group and he can go
7 forward with his part.

8 PRESENTATION

9 BY

10 MR. ANTONUK:

11 Thank you. Good morning. I want to
12 start by making sure you understand that we had the
13 support of your Staff all the way through the audit,
14 and that was very important and extremely helpful in
15 getting us to the stage we are at today, and it
16 would be remiss of me not to make sure that it's
17 clear to you all to understand how grateful we are
18 for that support.

19 Work like this also takes a high level
20 of support from the company that's being examined,
21 and there were some issues early in terms of getting
22 information on a timely basis. We had senior

1 meetings or meetings with the senior executive
2 leadership of Integrys and we worked out a series of
3 problems, and I want to say that by the end of the
4 job, I also wanted to note that I think we received
5 a very commendable level of cooperation from the
6 company and that cooperation also was very important
7 to us in being able to provide for you the report
8 that we have.

9 Moving to the substance of the report,
10 I want to be brief about this. The first thing I
11 think that needs to be said is that the AMRP is
12 succeeding in eliminating high-risk pipe from the
13 system. There is a great deal of such pipe. We
14 consider that pipe to be representative of a very
15 high level of public safety risk and the company is
16 moving very substantially to reduce the high-risk
17 pipe from the system. They're doing so under a
18 conceptual approach and design and think it is
19 effective.

20 The standards, and materials, and
21 installation methods are generally sound, and that's
22 based on probably somewhere on the order of a

1 thousand hours of field inspections, plus review of
2 engineering and construction standards by people
3 with executive and senior management experience in
4 the gas industry, in the engineering and
5 construction side.

6 The average installations under the
7 program in the last four years have been roughly 70
8 to 80 miles per year. As I'm going to explain,
9 that's not a pace that will complete placement
10 within the 20 years that is targeted, but it,
11 nevertheless, does represent a significant
12 acceleration of the rate that was being achieved in
13 more recent years.

14 Moreover, the company does use
15 effective methods for assessing risk and they are
16 following those methods in determining where to make
17 replacements.

18 With that said, there were a number of
19 technical opportunities that we found, and I listed
20 some examples there, and I don't propose to go
21 through them, but I wanted to make sure you
22 understand that while I'm ready to move into what I

1 will call more management and control issues, there
2 were a number of technical opportunities for
3 improvements that we found to exist as well.

4 The three overriding issues I think
5 that we found as a result of this investigation are
6 that there are critical drivers of the program's
7 success that we think remain unknowns at this point
8 well into the program.

9 The first unknown is how much will the
10 program cost upon completion. The most current
11 estimate is now three years or more old and is no
12 longer useful. It's no longer reliable. It does
13 not provide a proper basis for measuring likely
14 program costs. It is too low, but by how much it is
15 too low is not in our view presently knowable.

16 The company has lacked the capability
17 to actually to prepare a new estimate. We had
18 anticipated the creation of one in mid-2014, but we
19 were informed that the company was developing models
20 that would provide such an estimate, and the
21 provision of such an estimate remains outstanding
22 today.

1 The next question is how long is it
2 going to take to eliminate high-risk pipe. There's
3 talk about a 20/30 completion date or 20 years, but
4 the program does not operate under a long-term
5 schedule that makes clear how the company will get
6 to completion in 20 years.

7 There's also a question about what is
8 the long-term commitment in the company. The
9 question I think in that regard relates to the
10 degree to which the company's commitment to
11 completion in 20 years is or is not contingent upon
12 a continuation of a rate of recovery method.

13 In terms of where the project or the
14 program stands now on schedule, there are not
15 available metrics that allow you to measure what
16 progress should have been earned at this point
17 versus what's actually earned.

18 We attempted some indirect means of
19 assessing the schedule progress and it may be that
20 progress is much as a year behind after four years
21 into the program. So if that's so, there's been a
22 loss of one year in the first four years, and if

1 that's a valid conclusion, ultimately then it does
2 suggest that a 20-year completion for the program is
3 in doubt.

4 The last issue really is a function of
5 leak rates, and the program is about replacing leaky
6 pipe. There should be a reduction in leak rates
7 that is commensurate with replacement, and that
8 means accelerated replacement. That's not
9 happening.

10 On a nominal basis, leak rates
11 actually have been increasing. The company would
12 make adjustments for weather, which does in areas
13 like Chicago have a significant impact on leaks and
14 on accidental hits.

15 Even if you take full accounting of
16 the adjustments the company proposes, those rates
17 essentially will remain the same or decreasing only
18 very marginally, despite the fact that, as I
19 mentioned, the replacement rates some of them were
20 double what they had been in the years leading up to
21 the AMRP.

22 The question that raises is whether

1 program expenditures can better be directed at
2 reducing leaks, and that's an issue that we
3 recommended and continue to address with the company
4 during the implementation phase to try to identify
5 when there are other mechanisms that can be used
6 that will better value reduction in risk per dollar
7 spent.

8 Apart from those three basic levels of
9 uncertainty are key drivers, it's our conclusion,
10 and we made a number of recommendations to address
11 that, important management needs remain to be filled
12 in the AMRP, and they begin with the executive board
13 oversight. They involve the management structure
14 and the integration of resources involved in making
15 sure that all of the resources directed at AMRP are
16 well coordinated and directed from a common source
17 authority.

18 There's a need for integrating utility
19 resources and work planning. Many of the people who
20 perform work on the AMRP do these other day-to-day
21 functions, other normal functions, and they're
22 extensive as well, and they're important as well,

1 and there's a need to make sure that the AMRP work
2 is properly integrated into the work plan -- the
3 overall work plan and process to make sure that
4 neither the AMRP, nor other important work ends up
5 suffering through lack of attention to integrating
6 needs.

7 There are key staffing needs that need
8 to be filled, and then, in addition the program
9 needs a number of tools, and data, and analyses that
10 are required to support sound estimates.

11 As I noted, there is not an estimate
12 for the program. There's a need to develop the
13 capability and the commitment to estimating cost
14 control. There's a need for greater tools, data
15 analysis also to develop and then manage to a
16 long-term schedule versus the short-term schedules
17 that it currently and has been using.

18 The company needs to develop more
19 meaningful measures of performance so it's better
20 able to assess how the program is performing
21 against key milestones, key objectives, and key
22 performance measures.

1 And then, finally, there's a need for
2 focus on corrective action plans. Our
3 recommendations are fairly extensive and we think
4 it's going to take not just the development of the
5 specific responses to the recommendations but also a
6 structure -- I'll call it a change in management
7 support structure -- that will exist to make sure
8 that the right attention continues to be placed on
9 taking corrective actions and that particularly
10 there are going to be uncertainties with respect to
11 change in control, that the impetus behind change
12 for the AMRP remains strong and remains focused
13 through that period of transition.

14 And then, finally, there needs to be a
15 top level driven focus on safety training and
16 development. There are some, we call them,
17 corporate structural issues we think needs to be
18 addressed. There's some consolidation of the
19 programs that need to be addressed. There's some
20 clarification of authorities that need to be met,
21 and there needs to be a sound process for
22 identifying long-term resources and making sure that

1 they're both acquired, and developed, and they're
2 nurtured as the program goes forward.

3 CHAIRMAN SHEAHAN: Great. Thank you. We will
4 now hear from representatives of Integrys and
5 Peoples. Why don't you step forward. There's a
6 button on the mic to activate it.

7 Mr. Schrock, you may proceed when you
8 are ready.

9 PRESENTATION

10 BY

11 MR. SCHROCK:

12 Good morning, Mr. Chairman.

13 CHAIRMAN SHEAHAN: Good morning.

14 MR. SCHROCK: I'm Charles Schrock, Chairman and
15 CEO of Integrys Energy Group. Joining me today are
16 Jim Schott on my left, and he's Chief Financial
17 Officer, and John Kleczynski on my right, and John
18 is president of Peoples Gas and North Shore Gas. I
19 would like to thank you and the Commissioners for
20 this opportunity.

21 One of the things I want to clarify as
22 I work through my remarks we refer to the

1 Accelerated Main Replacement Program as AMRP in case
2 that was unclear. I will be using that acronym
3 throughout my brief remarks.

4 My comments today discuss the needs
5 and support for the program. I will also discuss
6 our commitment to a world-class Main Replacement
7 Program up to, and including, this most recent
8 Liberty audit.

9 The AMRP is a critical infrastructure
10 project for the City of Chicago and the State of
11 Illinois. At the inception of the AMRP, Peoples Gas
12 had approximately 2000 miles of cast iron and
13 ductile main, some of which was installed in the
14 late 1800s.

15 The system requires a great deal of
16 effort to maintain on a safe and reliable basis, and
17 we expect that it will become more difficult and
18 more expensive to maintain in the future. The
19 system clearly needs to be upgraded with modern
20 materials.

21 Since the merger of Peoples Energy and
22 WPS Resources through Integrys, it has been a

1 proponent of this upgrade. The Commission's support
2 of us in our efforts by approving a rider to recover
3 costs of this upgrade, approving recovery of costs
4 in subsequent rate cases, and working with us and
5 others to obtain overwhelming bipartisan legislative
6 support for legislation and the Governor's signature
7 on that legislation that authorizes a 10-year rider
8 for cost recovery.

9 We do appreciate and welcome the
10 support from the Commission and the Commission's
11 pipeline safety staff.

12 The AMRP is the largest, and arguably
13 the most ambitious, Natural Gas Modernization
14 Program in the country. Peoples ramped up the
15 program in 2011, 2012 and 2013, despite uncertainty
16 regarding recovery of the cost of the program. Not
17 unexpectedly for a program of this magnitude, we
18 have had some growing pains. Our goal is to develop
19 a world-class program, and we are committed to
20 continuously improving the program to do so.

21 As such, we pro-actively sought out
22 expert advice on the program resulting in numerous

1 improvements. We engaged a world-leading
2 engineering and construction firm, Jacobs
3 Engineering, to assist us in program management and
4 shortening the learning curve of managing a program
5 of this size.

6 In addition to Jacobs, we engaged
7 Price Waterhouse Cooper on two separate occasions to
8 review the program and provide recommendations for
9 the improvements.

10 The Liberty audit is now completed and
11 we view this as an opportunity to further improve
12 the program. Liberty's extensive interviews and
13 interactive field observations actively support our
14 ongoing review of the construction program and its
15 processes.

16 The candidness and the acumen that
17 Liberty exhibited during the audit and in their
18 reports will greatly help our efforts to
19 continuously improve and to make the AMRP a
20 world-class construction project.

21 We are committed to continuously
22 evaluating and improving our performance until the

1 last piece of cast iron pipe is replaced.

2 I was gratified that Liberty
3 recognizes commitment in its report noting that
4 Peoples Gas confirm, and I quote, its willingness to
5 commit to a number of actions, some already underway
6 and some of those approaching completion, whose
7 general description is going in the direction of
8 Liberty's recommendations.

9 In addition, Liberty noted the efforts
10 and achievements made by the people who work for the
11 AMRP. Also Liberty found that the Peoples Gas
12 leadership demonstrated an active commitment to a
13 broad series of changes to improve execution of the
14 project. This included a reorganization of Peoples
15 Gas bringing a much higher level of coordination to
16 the AMRP.

17 As the final report has just recently
18 been delivered, we haven't yet had an opportunity to
19 thoroughly review the findings and the
20 recommendations.

21 Based on our initial review, I can say
22 that we may not agree with everything on the report,

1 which is not unusual for a report of this size and
2 substance, but, more importantly, I can also say
3 that based on this initial review we are confident
4 that implementation of the recommendations will help
5 us in continuing to improve the project as we work
6 towards a world-class standard.

7 We will review the report in detail
8 and look forward to providing our response as well
9 as working with Liberty and the ICC Pipeline Safety
10 Staff on finalizing the recommendations and
11 implementing the programs.

12 I know one of the key concerns is
13 regarding the program's costs. Liberty noted that
14 the program's projected costs have exceeded a
15 significant increase. As I noted, earlier the
16 AMRP as faced challenges. There has been a consider
17 amount of change that has taken place in our first
18 four years of implementing the program. Indeed, it
19 seems that change has been the rule rather than the
20 exception. Despite many unforeseen circumstances,
21 Peoples Gas has adapted along the way in order to
22 continue implementation of this necessary program,

1 but these changes come with a cost.

2 We have looked at Liberty's draft
3 recommendations relating to the costs and have
4 embarked on developing a model that will help us
5 better track and predict the cost of the program.

6 As you might imagine, this is a
7 complex issue. Because of the complexity we have of
8 this complexity, we have engaged a third-party
9 consultant hired specifically to provide feedback on
10 our assumptions, our calculations, risk and
11 contingencies associated with the program and the
12 model.

13 Simply keep in mind that AMRP is a
14 program -- I emphasis program -- which is comprised
15 of hundreds, hundreds of individual projects that
16 span 20 years in total, so we need to be careful in
17 estimating the cost.

18 We would appreciate the opportunity to
19 discuss this program cost modeling and cost
20 projections with the Commission Staff and other
21 stakeholders when we have completed the development
22 and the review of the model and have the information

1 and the expertise available when such appropriate
2 attention can be paid to the details.

3 As I wrap up my prepared remarks, I
4 want to be clear that we know we can do better and
5 we are committed to working with Liberty and Staff
6 on Liberty's recommendations.

7 Even so, I am proud of the work that
8 has been done on the AMRP by our employees,
9 contractors and union partners. We have made a
10 significant amount of progress as the program has
11 ramped up installing more than 575 miles of main,
12 49,000 services, approximately 97,000 meters, and
13 have retired 304 miles of main since 2011.

14 We have placed emphasis on supplier
15 diversity spending \$110 million in 2014, which is
16 almost double our spending compared to 2013, and
17 this will remain a priority and emphasis on going
18 forward.

19 Finally, I would like to acknowledge
20 the leadership and employees of Peoples Gas and
21 Integrys, and especially our employees who work in
22 the field in all kinds of conditions to deliver

1 natural gas to our customers safely, reliably and
2 cost effectively 24 hours a day and 365 days a year.

3 All of us take this awesome
4 responsibility seriously and with an intense amount
5 of pride. Delivering AMRP in a timely and
6 cost-effective way is a critical part of our
7 responsibility. Our customers and the City of
8 Chicago deserve a safe, reliable and
9 reasonably-priced supply of natural gas.

10 Our customers in the City of Chicago
11 deserve a world-class natural gas distribution
12 system, and that's what we will deliver.

13 Thank you for giving us this
14 opportunity to speak, and we'll be happy to take
15 your questions.

16 CHAIRMAN SHEAHAN: Thank you, sir. We'll ask
17 that you remain at the witness table. Each
18 Commissioner will now have an opportunity to make a
19 brief statement and then we'll have a round of
20 questions following those statements.

21 I'll make the first statement and then
22 we'll hear from Commissioners McCabe, del Valle,

1 Maye and Rosales.

2 First, I would like to thank those of
3 you who are present today. Thank you, Mr. Beyer and
4 the ICC Staff; Mr. Antonuk from Liberty Consulting,
5 your team for the effort you put in the last year
6 producing this final report; and thank you to
7 Mr. Schrock and representatives of Peoples and
8 Integrys for appearing today to address the
9 Commission.

10 The ICC initiated this investigation
11 of the AMRP last year out of concern that the
12 program was off course. A third-party analysis was
13 warranted both to understand the current status and
14 provide recommendations that Peoples will follow to
15 correct the course of the program.

16 A year later Liberty has presented an
17 audit, including 33 areas of review and 95
18 recommendations for improvement. Clearly the
19 worries of the Commission were confirmed, and while
20 the audit is finished, the work of improving this
21 necessary project has only begun.

22 I am encouraged by the response from

1 Peoples Gas to Liberty's recommendations and the
2 fact that our staff and Liberty have been advising
3 the companies since last fall. These discussions
4 have led to a substantial consensus on where
5 improvements should be made.

6 It is essential that the Commission
7 will require that Peoples Gas develop a thorough
8 plan for implementing all of the recommendations.
9 Over the next two years and beyond, the ICC will
10 continue to work aggressively to provide oversight
11 over the project and to protect the public interest.
12 Importantly, the Illinois Commerce Commission will
13 work to ensure that costs of mismanagement will not
14 be borne by Peoples Gas customers.

15 I would like to now give Commissioner
16 McCabe an opportunity to make a statement.

17 COMMISSIONER McCABE: Thank you, Mr. Chairman.
18 In modernizing and replacing our gas pipeline
19 system, it's important to the health and safety of
20 our state's residents as Brookline (phonetic)
21 illustrates.

22 The Liberty audit details significant

1 problems with Peoples' execution of the Advanced
2 Main Replacement Program and in particular the lack
3 of adequate management, control and oversight.

4 According to the audit, there was no
5 plan to complete the project on time and the company
6 could not credibly estimate the cost of the AMRP
7 program.

8 I look forward to hearing about how
9 the company, and the auditors, and staff will meet
10 the audit findings.

11 CHAIRMAN SHEAHAN: Commissioner del Valle.

12 COMMISSIONER del VALLE: Thank you, Mr. Chairman.
13 The Peoples Gas AMRP has struggled for many years.
14 As with any utility before the Commission, only the
15 company has all the relevant information. Now this
16 audit has shed light on the status of this important
17 project.

18 This audit was initiated by me and
19 proposed by my office in Docket No. 12-0512 and
20 unanimously adopted by the Commission. This report
21 confirms the importance of the Commission's decision
22 to require the audit. In fact, the report indicates

1 that the problems are much worse than we feared.

2 The Commission had made clear and
3 approved the modernization program in 09-0167 that
4 public safety is the primary issue. This was not
5 just about updating a distribution system. This was
6 addressing the deterioration of the system, and as
7 we stated, safety and reliability are simply not
8 negotiable. This remains true today, and I am
9 confident that the Commission will ensure that this
10 project is executed within a reasonable cost and in
11 the required time line to ensure a safe and reliable
12 distribution system that Chicago's ratepayers are
13 paying for. Thank you.

14 CHAIRMAN SHEAHAN: Thank you for your leadership
15 on this, Commissioner.

16 Commissioner Maye.

17 COMMISSIONER MAYE: Thank you, Mr. Chairman.

18 It's a disappointing day when millions of Illinois
19 state citizens learn that the utility that they rely
20 on has gravely mismanaged and misused their
21 hard-earned dollars.

22 As a regulator, I am shocked and

1 disappointed to see the results of the Liberty audit
2 which states that an accurate estimate of the cost
3 of the AMRP is not possible.

4 Peoples Gas consumers should not have
5 to pay additional money to clean up the mess that
6 was created by lack of guidance and organization by
7 the company.

8 At this point I expect nothing less
9 than a thorough plan to be put in place that will
10 yield the results that we anticipated on the
11 improved rate recovery to the AMRP over the last few
12 rate cases.

13 I look forward to working with our
14 staff as well as the leadership of the company to
15 ensure that that happens immediately and without
16 further delay.

17 CHAIRMAN SHEAHAN: Thank you, Commissioner Maye.

18 Commissioner Rosales, are you with us?

19 COMMISSIONER ROSALES: Yes, Mr. Chairman.

20 As Commissioners, our primary role is
21 to ensure the reliable provisions of utility
22 services in a cost-effective way for its customers

1 of Illinois. The most disturbing piece of this
2 audit in my reading is the inability of Peoples Gas
3 to put a current, accurate cost on the AMRP.

4 Peoples' customers should not pay for
5 the mistakes of Peoples Gas and Integrys management
6 and it is the responsibility of this Commission and
7 our Staff to determine what the problems of
8 management are.

9 We all agree on the essential need for
10 this program. Eighteen hundred year old pipe from
11 the 1800s of the needs to be replaced. There's also
12 no doubt about the process. There's no doubt that
13 as a project of this magnitude what it means
14 mismanaging arterial streets and intersections and
15 replace pipe, but those considerations don't make
16 the lack of the process understandable and contrary
17 they make a lack of the process all the more
18 concerning.

19 I want to thank Liberty for a very
20 thorough audit of the AMRP and answer questions
21 today. It is essential that Peoples Gas and
22 Integrys leadership understand the significance of

1 the changes that need to be made. It must also
2 realize that this report is the beginning of a
3 massive effort on their part to reform this program
4 and that Liberty auditors and ICC Staff will be
5 clearly auditing their work.

6 By state law, as you know, Peoples Gas
7 has applied for a tariff through the Commission to
8 recover costs associated with the investment of the
9 AMRP, but I want to be clear this Commission will
10 not accept a cost of mismanagement that this audit
11 discovered.

12 Thank you, Mr. Chairman.

13 CHAIRMAN SHEAHAN: Thank you, Commissioners.

14 We will now proceed with a round of
15 questions from Commissioners. I will begin, then we
16 will hear from Commissioners McCabe, del Valle, Maye
17 and Rosales.

18 I have one question for Staff.

19 Mr. Beyer, how can we assure stakeholders and
20 ourselves that the cost of the AMRP will be
21 reasonable and prudent and that Peoples will
22 complete the AMRP within a reasonable time?

1 MR. BEYER: There are two parts to my answer.
2 The first is to continue with the audit, to continue
3 working with the company and Liberty to ensure that
4 that we do get good cost estimates and good
5 schedules for completion of the program. That will
6 set the basis for an improved program and providing
7 us some assurance that the costs and the schedules
8 are reasonable.

9 Beyond that though, when we get into a
10 rate case in which a portion of these costs will be
11 litigated and reviewed, Staff will do the same type
12 of review it did in the say 2012 case when we began
13 reviewing AMRP costs at that time. We noted that at
14 that time the serious cost overruns and quantified
15 those cost overruns and primarily because the
16 program was still rather new and there had been a
17 couple of problems with the Rider ICR and what have
18 you.

19 We also provided the alternative to
20 proceed with this audit, and that was what was
21 included in the Commission's final Order was the
22 direction to proceed with this audit and give us a

1 good solid basis for proceeding.

2 In the next rate case we intend to do
3 the same review that we did in the 2012 rate case
4 and that is to look at all the expenditures, look at
5 the projects, look at their progress in satisfying
6 the schedule. We hope at that time to have a better
7 back drop through scheduling and cost estimating as
8 that might comport from the implementation and the
9 recommendations.

10 The second area we are going to look
11 at is to review any costs that are run through the
12 special rider that was added to the law in 2013. A
13 lot of AMRP costs run through the rider. I'm
14 guessing a majority of those costs run through the
15 rider. I don't recall the details right now, but we
16 are going to look at that rider every year in a case
17 to see what the costs have been and to make a
18 determination from Staff's perspective of what
19 reasonable and prudent costs are and those are the
20 recommendations that will be litigated and the case
21 will be presented to you.

22 CHAIRMAN SHEAHAN: Thank you.

1 Commissioner McCabe, questions?

2 COMMISSIONER McCABE: How has the working
3 relationship with the --

4 (A brief interruption.)

5 CHAIRMAN SHEAHAN: Let's pause. The building is
6 engaged in a fire drill exercise. We are exempt
7 from it, so we should just pause.

8 (Off the record.)

9 Commissioner McCabe.

10 COMMISSIONER McCABE: Thank you, Chairman.

11 How has the working relationship with
12 the city evolved, the City of Chicago, and how much
13 will the program's setback slow down in the miles of
14 pipe replaced can be explained by that relationship
15 and possibly trying to match the Pipeline
16 Replacement Program with the city's infrastructure
17 replacement priorities?

18 MR. ANTONUK: I think the initiation of the AMRP
19 was difficult for both the company and the city.
20 The massive amount of work that came about I think
21 shocked the systems of both, so I describe the early
22 part of the program as kind of each of them getting

1 accustomed to what the other needed and would
2 require to do their jobs.

3 I think following that, essentially
4 what happened was the inability of the company to
5 integrate schedules well meant that they were
6 starting to have quite a number of permit programs
7 with the city, expired permits, no permits, taking
8 too long in making restoration following
9 installation, So I think that phase really set the
10 company back substantially in dealing with the city.

11 The company has made pretty strong
12 efforts to -- I don't want to say repair the
13 relationship. That makes it sound like it's broken,
14 and I don't know the answer to that, but certainly
15 to improve relationships with the city on a higher
16 level. We frankly think the company's done about
17 all it can do to fix things at that level, although
18 they need to continue.

19 Really what's going to I think in the
20 long run improve the relationship with the city is
21 better performance in terms of being able to get the
22 work done within permit windows, complete

1 restoration work on time, complete restoration work
2 to the city's satisfaction.

3 Beyond that, I think it's also fair to
4 say is that the degree to which the city's
5 requirements are going to affect the program's work
6 were not well understood and were subject to change
7 in the early years of the program. There's no
8 doubt that the changing city requirements increased
9 the amount of work it takes to make replacements.

10 My biggest concern from the future
11 perspective is this, that we understand from the
12 company that the city plans for a very substantial
13 increase in street work in the coming years.
14 The company has done the best it can to try to match
15 AMRP work with city work, because it's just very
16 difficult to get back in the streets to reopen them
17 after they have been dealt with by the city.

18 I mentioned one of our concerns is the
19 failure to decrease in the fall. The degree to
20 which the company is going to need to coordinate
21 schedules with the city in the future if, in fact,
22 the city is going to increase work substantially I

1 think poses an additional risk to kind of diverting
2 attention from the highest risk pipe to pipe that
3 happens to be in the areas that are covered by the
4 city's plans for its work in the streets, and that
5 doesn't just mean street work. That means city
6 utility work obviously.

7 Also, I think they're going to have
8 some very careful attention paid to how coordination
9 with the city needs to take account of the fact that
10 the company really needs to begin the high-risk pipe
11 out of the ground as fast as we can.

12 CHAIRMAN SHEAHAN: Mr. Schrock.

13 MR. SCHROCK: I think Mr. Antonuk actually has a
14 very good understanding of the issues involved, but
15 I am proud of the work we have done just recently to
16 improve our cooperation and our coordination with
17 the city.

18 And John Kleczynski would like to
19 comment on that.

20 MR. KLECZYNSKI: Thanks, John. Thanks, Charley.

21 I, too, would agree with Mr. Antonuk
22 in terms of your assessment of what has led to some

1 of the difficulties we had in the early stages of
2 the program, but I think what's good is that we have
3 learned from literally stages of the program we
4 ramped up and learned that within our workload,
5 whether they be associated with the AMRP or
6 associated with our regular O&M maintenance work, we
7 have to do a better job of planning and coordinating
8 that with the efforts of the city, so we have
9 reached out in the past eight months, since I have
10 had this role, have tried to develop a strong
11 relationship -- a working relationship with the CDOT
12 commissioners, as well as staff, to make sure that
13 coordination happens across all of our associated
14 workloads, not only on AMRP. We have seen
15 improvements and we have seen better handling of
16 some of the issues that you have identified, John,
17 on permit restoration.

18 MR. ANTONUK: If I could just -- maybe as a
19 footnote, as important as the AMRP is, it can
20 represent as little as 10 to 15 percent of the
21 permits that the company needs from the city, so
22 when you look at relationships with the city, our

1 focus, obviously, is primarily through the AMRP, but
2 I think it's critical to realize from the city's
3 perspective the AMRP, while it's important, is
4 really only part of the challenge of trying to work
5 with the company to make sure that the company gets
6 its work done in a way that minimizes disruption to
7 the residents and businesses of Chicago.

8 MR. KLECZYNSKI: And if I could make one more
9 comment and kind of put it a little more succinct,
10 coordinate our workload better so all of that work
11 now happens within the guise of the leadership
12 within Peoples Gas. So whether it's our operations
13 maintenance work or our AMRP work, we now have a
14 single coordinated effort of the workload and that
15 helps with that relationship.

16 COMMISSIONER McCABE: If the merger with
17 Wisconsin Energy is approved, how do you expect AMRP
18 management oversight to change?

19 MR. SCHROCK: Commissioner McCabe, I actually
20 anticipated that question.

21 COMMISSIONER McCABE: How about that.

22 MR. SCHROCK: The fact is the organizational

1 structure is still being developed by the WC Energy
2 Group and Wisconsin Energy. I do not have any
3 additional insight into exactly who they intend to
4 put where.

5 There's two things I would say. I
6 know they're very interested. They have stated
7 publicly that they intend to bring leadership to
8 Chicago to manage the businesses in Chicago, and
9 they have also made it very clear they fully intend
10 to support the project, to implement the project and
11 to implement the recommendations.

12 CHAIRMAN SHEAHAN: Commissioner del Valle.

13 COMMISSIONER del VALLE: Thank you, Mr. Chairman.

14 I have a couple of questions. The
15 audit findings that Peoples is roughly a year behind
16 schedule, what's the priority? Is the priority
17 getting this project completed on time or is it
18 ensuring recovery through the costs through the
19 rider?

20 MR. SCHROCK: Commissioner, it's certainly both.
21 Those are very important. I think our top priority
22 is the safety and reliability of the system that

1 will take precedence over all else.

2 COMMISSIONER del VALLE: So getting it done on
3 time and addressing the safety issue?

4 MR. SCHROCK: And to be clear, we need to manage
5 safety every day and in the future, and that will
6 always be our priority.

7 Having said that, we expect to manage
8 the project and to complete it in a 20-year window
9 that we talked about, and we'll fully expect that we
10 would get appropriate recovery for our costs doing
11 that, but safety and reliability are the things that
12 we worry about.

13 COMMISSIONER del VALLE: Given that if the rates
14 continue to increase, what will the change in
15 approach mean?

16 MR. SCHOCK: I always worry about sounding a
17 little defensive here, but I mentioned some things
18 earlier. There's some things in that report, the
19 Liberty report, that we don't agree with. We need
20 to have a good dialogue around those issues. The
21 leak rate is one of those things.

22 Our interpretation is we have been

1 making progress. Your question I think could be
2 done in a more straightforward way. If we see risk
3 increasing on the system, leak rates on the system,
4 we need to address that immediately.

5 And let me ask John to comment a
6 little bit more, because he's from operations, the
7 way we do that.

8 COMMISSIONER del VALLE: By the way, before you
9 do that, I understand some of these hits that have
10 occurred that the city's responsible for are not
11 your fault. In developing the activity with the
12 water department, we see more of those hits take
13 place, so that increased coordination becomes even
14 more important.

15 MR. KLECZYNSKI: That's well said, Commissioner,
16 and that's why not only with the Chicago Department
17 of Transportation, but with the Department of Water
18 management, too, we forged a relationship in terms
19 of trying to make sure our work does get
20 coordinated, so we do encounter each other's
21 facilities at a significant rate.

22 As far as the leak rate, again, as

1 Charley mentioned, it's one where I think we have a
2 little bit difference of opinion, so we look at what
3 has driven some of our leaks, the hits, as well as
4 the effects of weather, when you look at it from
5 that perspective, and just strictly leak totals you
6 might not see the impacts of your program; however,
7 I look at the weather over the past two winters had
8 a profound affect on the system.

9 The pipe we are talking about
10 replacing, if we discount that and normalize our
11 weather and thus normalize our leaks, as well take
12 out effective hits, we see in the data a decline in
13 the leak rate.

14 Now I do want to say though that
15 Liberty has recommended to us that we look at how we
16 prioritize our main replacement, and we have
17 recently made changes to our prioritization
18 methodology and think that that is going to have an
19 effect that Liberty has asked us to look at which is
20 to go after some of our highest risk pipe.

21 COMMISSIONER del VALLE: Now you indicated
22 earlier that you are committed to actions -- and

1 please correct me if I'm not quoting you right --
2 committed to actions with a general description
3 going in the direction of Liberty's recommendations.
4 Is that accurate? Did I write it down right?

5 MR. SCHROCK: Yes, you did. That was a quote
6 from the Liberty interim report.

7 COMMISSIONER del VALLE: But you are committed --

8 MR. SCHROCK: Yes, sir.

9 COMMISSIONER del VALLE: -- to the action.

10 Looking at Staff reports and comments
11 made in the docket, is it your understanding that
12 these recommendations can be negotiated without any
13 input from other stakeholders and then implemented
14 without Commission approval?

15 MR. SCHROCK: Commissioner, I need to address
16 your last question. I don't know the exact
17 oversight, but it would not be our intent to do this
18 independently. We fully intend to work with
19 Liberty, with the Commission Staff and stakeholders
20 as we develop an implementation plan.

21 MR. BEYER: As far as how we are going to proceed
22 from now, it's Staff's preference that Liberty,

1 Peoples Gas and Staff work on the next two years of
2 the implementation plan. It's not our intention to
3 invite other parties to participate in that. It's a
4 response from Peoples Gas to the recommendations
5 that Liberty's making and Staff participates in that
6 and reports to you on the progress. It's similar to
7 our pipeline safety work where our pipeline safety
8 inspectors go out and audit the books and records of
9 all the utilities. We do not have anyone
10 accompanying us in that sort of work.

11 What we are trying to do now is
12 implement these recommendations, and, as we
13 maintained during the merger case for the past
14 several months, it's our preference to keep this
15 program separate and out of the litigated arena,
16 So it's our fear that that could get delayed.
17 Motions are filed. Parties are participating and it
18 would interfere with implementing the
19 recommendations.

20 At the conclusion of the phase-in or
21 during the phase-in, if we have problems, for
22 example, if there's a difference between the

1 company, and Liberty, and Staff as to what
2 recommendations can be implemented and what can't,
3 if there's disagree there, we are going to bring
4 something to you and that could turn into a docketed
5 case if we have to.

6 COMMISSIONER del VALLE: Because I already heard
7 that there are some disagreements.

8 MR. BEYER: You say frankly they don't agree with
9 all of them, that's not uncommon and a lot of times
10 we work that out, but if we can't work that out, we
11 will come before you.

12 COMMISSIONER del VALLE: You will come before us?

13 MR. BEYER: Yes.

14 COMMISSIONER del VALLE: Thank you.

15 CHAIRMAN SHEAHAN: Commissioner Maye.

16 COMMISSIONER MAYE: Thank you, Mr. Chairman.

17 It's been made clear that there are some
18 disagreements with Mr. Beyer. That's not uncommon,
19 but do you agree there is an inability to put an
20 estimate on the cost of the program?

21 MR. SCHROCK: I think the characterization that
22 Mr. Beyer made is accurate that we have not

1 developed a comprehensive model to provide that sort
2 of estimate. The estimates that we did in the past
3 were based on a different approach and developing a
4 different approach.

5 COMMISSIONER MAYE: My biggest issue here is that
6 I do wholeheartedly believe you have lost the trust
7 of your consumers and your ratepayers, which I think
8 is a significant priority to gain back. What is
9 your next step in doing that?

10 Let me follow that up with saying, and
11 I myself am a Peoples Gas ratepayer, but the
12 majority of your consumers they watch the news,
13 listen in the media, and know that you are
14 consistently paying a cost, and your rates have been
15 increasing significantly and consistently over the
16 last few years for this program that now is not
17 where it's suppose to be and you can't tell how much
18 it's going to cost or how long it's suppose to go
19 on.

20 So what is your step in addressing our
21 concerns and how do you expect them to trust you?

22 MR. SCHROCK: Commissioner, it starts with

1 communication and it starts with you, and the Staff,
2 and the Liberty report. May I make a couple of
3 comments in general?

4 COMMISSIONER MAYE: Please.

5 MR. SCHROCK: One of the issues with developing a
6 long-term projection, a 20-year projection, is that
7 so many things change from the time you do the
8 projection to the time -- to the end of that 20-year
9 period.

10 In the first few years of the project
11 that's what we have seen. We have seen regulation
12 changes. We have seen changes in what we think we
13 need to do from a safety standpoint on the
14 construction project.

15 So our view is that the best way to
16 manage the project is by managing it on a
17 project-by-project basis over the next three-to-five
18 years getting a very good view of what that is and
19 managing those costs, because, frankly, any number I
20 put out from 20 years is likely to be wrong. You
21 can put a range around it, but you are still subject
22 to the changes that will occur over time, and

1 actually Liberty in the report, from the bit that
2 I've reviewed, looks like they understand that.

3 Now, on the other hand, they have will
4 back and offer us recommendations on how that
5 long-term cost could be used holistically to measure
6 and to influence some of the decisions we make along
7 the way, and that's a great insight that we intend
8 to implement and that's why we are putting together
9 the model.

10 So just a couple of comments on the
11 cost and how we manage the project, and we do that
12 very carefully on the near term, but the longer term
13 view is something that at the moment we don't use in
14 our thinking.

15 COMMISSIONER MAYE: And I understand that. I
16 think it's important though again that consumers
17 have an understanding of that and that you try to
18 work to get ahead of that and deliver that
19 information to the consumers.

20 As I mentioned, I'm one of your
21 ratepayers. So perhaps you need to work on a
22 communications plan with your consumers to let them

1 know what's going on.

2 MR. SCHROCK: And we agree with that.

3 CHAIRMAN SHEAHAN: Commissioner Rosales,
4 questions?

5 COMMISSIONER ROSALES: Yes. From what I have
6 read in the report and what I'm hearing today is
7 some times doesn't coincide. In looking
8 specifically on Page 12 of the report, in the last
9 paragraph states that "Recently begun company
10 initiatives to address AMRP needs include
11 significant changes in cost of equity and
12 management. They do not as yet" -- I'm quoting
13 this -- "they do not as yet reflect a full
14 transition to the holistic approach that Liberty
15 recommends," and that's from the Commission's
16 perspective. This is very discouraging.

17 So the report concludes that an
18 accurate estimated cost of the AMRP is not possible.
19 That's what Commissioner Maye has spoken about, but
20 following up on Commissioner Maye's question, how
21 far along do you believe Peoples Gas is right now
22 and when will Peoples be capable of estimating the

1 completed cost with some basic level of professional
2 accuracy? I heard it's 20 years, and there's a
3 lot -- I just haven't heard an answer yet.

4 MR. SCHROCK: Commissioner, John Kleczynski will
5 respond to that.

6 MR. KLECZYNSKI: So, first off, I would say this
7 gets back to I think a couple of times of the term
8 "disagreements" that are out there. I want to maybe
9 dispel that a little bit.

10 So when you look at the draft's final
11 report we saw, I think we tallied 93 recommendations
12 from where we had already started moving forward for
13 the last several months on almost 60 of those, and
14 we were doing so under a pretty strict program or
15 project management approach, some of those do affect
16 customer recommendations Liberty made to us,
17 Commissioner, so we are moving forward on those.

18 As far as the cost model, that is one
19 of those recommendations that we are moving forward
20 on, so we have brought in an outside consultant to
21 help us pull that model together, and we anticipate
22 in the first juncture where we are going to need to

1 report on our progress in Phase II that we have a
2 cost model that we like to come back and talk to you
3 about.

4 MR. SCHOTT: And I would like to clarify it's the
5 long-term cost model we are talking about. We do
6 provide -- when we file our rate case, we provide a
7 forward-looking test year of which we forecast our
8 AMRP costs.

9 In addition, we have Rider QIP, which
10 we have to provide forward-looking costs, so we do
11 provide that information. It's not a 20-year cost
12 as Charley talked about. There's probably --
13 20-year cost is a problematic, but we do have
14 current year price forecasts, and we do stick fairly
15 close to those, and that stays within the parameters
16 of the legislation that talked about a 4 percent
17 annual rate increase, so we stay within those
18 parameters on a short-term basis. It's the
19 long-term 20 year forecast I think is what's at
20 issue here.

21 CHAIRMAN SHEAHAN: Commissioner Rosales, do you
22 have any others questions?

1 ACTING COMMISSIONER ROSALES: No, Mr. Chairman.

2 Thank you.

3 CHAIRMAN SHEAHAN: Thank you.

4 Any other follow-up questions from the
5 Commissioners?

6 COMMISSIONER del VALLE: I have.

7 CHAIRMAN SHEAHAN: Commissioner del Valle.

8 COMMISSIONER del VALLE: One last question going
9 back to the merger and the time frame here. The
10 recommendations and the negotiations that will take
11 place with Staff and Peoples will be done over what
12 period of time roughly?

13 MR. BEYER: We are going to begin that
14 immediately. We are already in Phase II, and so as
15 soon as the report is released today and everybody
16 sees the final report, we will begin that.

17 COMMISSIONER del VALLE: At what point do we see
18 that? I know some has already being implemented,
19 and you said that in the interim report, but at what
20 point do we say that the final report
21 recommendations are in the process of being
22 implemented; therefore, they have already been

1 agreed to?

2 MR. ANTONUK: Excuse me. The process we like to
3 see is an implementation plan which would set forth
4 those areas where there is disagreement so we could
5 immediately work those out within weeks, and then
6 follow the implementation plan, what we would be
7 doing is kind of looking quarterly. Our expectation
8 is that we are in the process where many of the
9 recommendations probably are already implemented.
10 Most should be implemented within what remains of
11 this year.

12 COMMISSIONER del VALLE: I guess what I'm getting
13 at is that is the merger affecting the
14 implementation schedule of the recommendations which
15 includes reaching an agreement, negotiated agreement
16 on the final recommendation.

17 MR. ANTONUK: From our perspective, no. It's
18 full speed ahead.

19 COMMISSIONER del VALLE: Can those
20 recommendations then be changed once the merger's
21 approved?

22 MR. SCHROCK: Commissioner, I'll speak on behalf

1 of Peoples Gas, and, as I indicated earlier, we are
2 not waiting for anything. We are looking at the
3 recommendations. We are developing appropriate
4 action plans, and we'll be working with Staff and
5 Liberty alone to do that.

6 Under any circumstances, if conditions
7 change that cause us to rethink a recommendation,
8 we'll come back and talk to the Staff, and I can say
9 that with confidence without any impact from the
10 merger. That is the approach that we'll take.

11 MR. BEYER: I would add to that we are working
12 with Peoples Gas. I don't know who's going to be
13 owning Peoples Gas in the near future. I don't know
14 who owns them now. I don't know who's heading them
15 later on, but we are going to be dealing with
16 Peoples Gas in the implementation of all of this,
17 whether it's Wisconsin Energy, it doesn't make any
18 difference to me. We are going to be working with
19 the company. The company's responsibility for
20 implementing the recommendations, working with us to
21 present the plan, as John mentioned, that we will
22 then review. We are going to keep working on that

1 as efficiently as we can and report to you as
2 frequently as we can to let you know how that's
3 going.

4 MR. SCHOTT: Would it help to provide a status of
5 the merger approvals? Obviously, we are waiting for
6 approval. There's a statutory deadline of July 6th,
7 so that would occur.

8 Minnesota is the only other state that
9 hasn't approved. We understand Wisconsin is going
10 to approve it tomorrow, and Minnesota will approve
11 it probably in the next month or so, so the merger
12 will occur fairly soon and not likely before the
13 September 30th deadline if that helps.

14 COMMISSIONER del VALLE: Thank you.

15 MR. BEYER: May I offer one more thing. One of
16 the reasons we placed the interim Liberty report in
17 the record in the merger case was to alert all
18 parties involved, including Wisconsin Energy, as to
19 what we were learning through the audit of AMRP, and
20 one of the goals is to proceed with no stops here as
21 to just smoothly move on, and, as I said, we are
22 going to look to Peoples Gas to ensure that.

1 CHAIRMAN SHEAHAN: Thank you.

2 This concludes the Commission's
3 presentation of the Liberty audit. The report
4 itself will be made public via the Commission's
5 website.

6 I would like to thank Staff, Liberty
7 Consulting, and representatives from Integrys and
8 Peoples for being here this morning.

9 The Commissioners take this matter
10 very seriously and we appreciate all of your efforts
11 in taking the time to appear before us today.

12 Without objection, the Commission will
13 stand in recess for 10 minutes. I will come back
14 and proceed with our regular bench session after the
15 break.

16 (A recess was taken.)

17 We stand in Order. The recess has
18 expired.

19 Moving onto our Public Utilities
20 Agenda, Items E-1 and 2 concern updates to two ComEd
21 riders.

22 Are there any objections to

1 considering these items together and not suspending
2 the filings?

3 (No response.)

4 Hearing none, the filings are not
5 suspended.

6 Item E-3 involves ComEd's proposed
7 update to its General Services Agreement. This item
8 will be held for disposition at a future Commission
9 meeting.

10 Commissioner McCabe.

11 COMMISSIONER McCABE: Yes. I just want to ask
12 the ALJs whether Section 7-101 --

13 ACTING COMMISSIONER ROSALES: I can't hear you,
14 Commissioner McCabe.

15 COMMISSIONER McCABE: I'm sorry. The mic's on
16 now.

17 Question to the ALJs. Does Section
18 7-101 of the Act need Commission approval to
19 initiate a compliance filing by an investigation?

20 JUDGE TEAGUE: Yes, it does. Generally you don't
21 need a hearing or an investigation under 7-101 to
22 approve a GSA. You only need a hearing or an

1 investigation to disapprove a GSA.

2 COMMISSIONER McCABE: Thank you.

3 CHAIRMAN SHEAHAN: Any further questions
4 concerning E-4?

5 (No response.)

6 I'm sorry. E-3. All right.

7 Moving onto Item E-4, which concerns
8 ComEd's Petition for Reconciliation of Revenues
9 Collected under Rider UF.

10 Are there any objections to approving
11 the proposed Order?

12 (No response.)

13 Hearing none, the Order is approved.

14 Items E-5 and 6 are Applications for
15 Various Electric Installer Authority.

16 Are there any objections to
17 considering these items together and approving the
18 proposed Orders?

19 (No response.)

20 Hearing none, the Orders are approved.

21 Item E-7 involves the dismissal of a
22 complaint against Starion Energy.

1 Are there any objections to granting
2 the parties' joint motion to dismiss?

3 (No response.)

4 Hearing none, the motion is granted
5 and the complaint is dismissed.

6 Item E-8 is AGR's petition to cancel
7 its Certificate of Service Authority to Operate as
8 an Agent, Broker or Consultant ("ABC"), pursuant to
9 the Public Utilities Act.

10 Are there any objections to approving
11 the proposed Order?

12 (No response.)

13 Hearing none, the Order is approved.

14 Items E-9 through E-18 are Petitions
15 for the Confidential Treatment of Various Reports.

16 Are there any objections to
17 considering these items together and approving the
18 proposed Orders?

19 (No response.)

20 Hearing none, the Orders are approved.

21 Item G-1 is Prairie Point Energy's
22 petition requesting to withdraw the motion to Extend

1 its protective Order.

2 Are there any objections to approving
3 the petition?

4 (No response.)

5 Hearing none, the petition is
6 approved.

7 Item G-2 concerns Ameren's petition
8 for approval of tariffs associated with a Small
9 Volume Transportation ("SVT") Program and a Request
10 for Oral Argument in this proceeding.

11 Ameren's petition will be held for
12 disposition at a future meeting.

13 Is there any objection to granting the
14 Request for Oral Argument?

15 (No response.)

16 Hearing none, the Request for Oral
17 Argument is granted.

18 Item G-3 involves dismissal of a
19 complaint against Peoples Gas as to billing charges
20 in Chicago.

21 Is there any objection to granting the
22 parties' joint motion to dismiss?

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(No response.)

Hearing none, the motion is granted and the complaint dismissed.

Item G-4 is a Petition for Interlocutory Review concerning Ameren's new and Revised Tariffs for Natural Gas Delivery Service.

I, and a majority of the Commission, believe that as a procedural matter evidentiary rules are not appropriate in case management Orders.

The Commission has an interest in ensuring that the record in cases heard before it are fully developed and contain the most accurate and up-to-date testimony possible.

However, nothing in our action today should be interpreted as modifying the Commission's past practice, rules, or governing statutes, and ALJs are encouraged to continue to exercise their good judgment as to the admissibility of certain evidence offered during cases consistent with the Commission's rules, past practice, and state law.

Therefore, I move that we grant the petitioner's request to strike Section E of the Case

1 Management Plan entitled "Updates to Cost of
2 Equity."

3 Is there a second?

4 COMMISSIONER MAYE: Second.

5 CHAIRMAN SHEAHAN: Is there any other discussion?

6 Commissioner McCabe.

7 COMMISSIONER McCABE: Thank you. While I respect
8 the opinion of my colleagues, I found Staff's
9 response persuasive, including the argument that it
10 is reasonable to have a date after which there can
11 be no further evidence presented based on
12 fluctuations of this calculation. In this case that
13 date falls within the time period in which the
14 Commission's rules prohibit the utility from
15 submitting an update filing.

16 CHAIRMAN SHEAHAN: Commissioner del Valle.

17 COMMISSIONER del VALLE: Mr. Chairman, to rule on
18 the interlocutory review in these specific matters,
19 in my opinion to micromanage the discovery schedule,
20 which the rule grants the ALJ significant authority
21 and discretion to have the undecided effect of
22 encouraging parties to challenge what are routine

1 discretionary decisions of the ALJ. For that
2 reason, I vote no.

3 CHAIRMAN SHEAHAN: Thank you. I would just
4 respond to that by saying that evidentiary rules are
5 not routine, and not scheduling, and not of the
6 nature that are typically found in a case management
7 Order.

8 Granting the requested petition
9 doesn't change the Commission's past practice rules
10 or governing statute, and I think you make it clear
11 that the ALJ should continue to use their good
12 judgment in evaluating the request to offer evidence
13 in the cases at all phases of the case.

14 Is there any other discussion?

15 COMMISSIONER MAYE: Mr. Chairman, I just wanted
16 to add that I do not believe that the evidence is
17 shared. Essentially this is premature to put that
18 evidentiary piece in the case management Order is
19 premature, and it's not that I disagree that we
20 should not have a final date when additional
21 evidence should be led, and that is premature to
22 deal with it now in the case management phase.

1 CHAIRMAN SHEAHAN: Any other discussion?

2 (No response.)

3 All those in favor of the motion, say
4 aye.

5 Opposed, say nay.

6 COMMISSIONER del VALLE: No.

7 COMMISSIONER McCABE: No.

8 CHAIRMAN SHEAHAN: The vote on the motion is 3 to
9 2 and the motion is adopted.

10 Item G-5 is XOOM Energy's Application
11 for Confidential Treatment of its Part 551 Financial
12 Report.

13 Are there any objections to approving
14 the proposed Order?

15 (No response.)

16 Hearing none, the Order is approved.

17 Item T-1 concerns Virgin Mobile's
18 Application requesting a Limited Designation as a
19 Wireless Eligible Telecommunications Carrier
20 ("ETC"). I believe Commissioner del Valle has some
21 proposed edits. Commissioner del Valle.

22 COMMISSIONER del VALLE: Thank you, Mr. Chairman.

1 The edits begin on Page 20 of the Order. According
2 to the subheading Condition No. 4 regarding the
3 condition that applicants seek an opinion from the
4 Illinois Department of Revenue.

5 The edits find that Condition 4 is not
6 necessarily because the Commission understands that
7 Virgin Mobile has committed to meet all applicable
8 E911 surcharges for all of its lifeline customers,
9 which is understood to be the practice of all
10 lifeline providers, and the Commission can monitor
11 this commitment through the reporting requirements
12 in Conditions 12 and 13. Virgin Mobile is, of
13 course, free to seek an opinion from the Department
14 of Revenue.

15 I believe that certain charges do not
16 apply. The edits do not change the conclusion that
17 Virgin Mobile has satisfied the ETC designation
18 requirements.

19 With that, I move the adoption of this
20 edit.

21 CHAIRMAN SHEAHAN: I will second the edits.

22 Is there any further discussion?

1 (No response.)

2 Hearing none, we will move on to vote.

3 All of those in favor, say aye to
4 adopt the edits.

5 (Chorus of ayes.)

6 Opposed, say nay.

7 (No response.)

8 The edits pass on the principle
9 motion, so we have the motion to amend. Now can we
10 have a vote on the amended Order.

11 All those in favor, say aye.

12 (Chorus of ayes.)

13 Opposed, say no.

14 (No response.)

15 The motion passes 5 to 0 and the
16 Order, as amended, is approved.

17 Item T-2 is an Order regarding the
18 withdrawal of an Application for a Certificate of
19 Local Interexchange Authority.

20 Are there any objections to approving
21 the proposed Order?

22 (No response.)

1 Hearing none, the Order is approved.

2 Items T-3 through T-5 are Petitions
3 for Confidential Treatment of Various Reports.

4 Are there any objections to
5 considering these items together and entering the
6 proposed Order?

7 (No response.)

8 Hearing none, the Orders are entered.

9 Judge Kimbrel, do we have any other
10 matters to come before the Commission today?

11 JUDGE KIMBREL: Nothing further, Mr. Chairman.

12 CHAIRMAN SHEAHAN: Do any of the Commissioners
13 have any other business to discuss this morning?

14 (No response.)

15 Hearing none, this meeting stands
16 adjourned. Thank you.

17 (Whereupon, the above matter
18 was adjourned.)

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