

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	Docket No. 12-0623
The Peoples Gas Light and)	
Coke Company)	
)	
Citation for failure to comply with)	
49 CFR 192.465(d))	

SUPPLEMENTAL DIRECT TESTIMONY
OF
POLLY M. ELDRINGHOFF

- 1 Q. Please state your name and business address.
- 2 A. Polly M. Eldringhoff, 130 East Randolph Street, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. Integrys Business Support, LLC (“IBS”).
- 5 Q. What position do you hold with IBS?
- 6 A. I am the Manager, Internal Audit Services.
- 7 Q. What are your responsibilities in that position?
- 8 A. I am responsible for overseeing or managing all internal audit activities for
- 9 Integrys Energy Group, Inc. Additionally, I am responsible for leading or
- 10 participating in fraud investigations and managing the employee hotline, Ethics
- 11 Line.
- 12 Q. Please summarize your educational background and business experience.

13 A. I graduated from the University of Tennessee in 1998 with a Bachelor of Science
14 in Business Administration. In 2001, I became a Certified Fraud Examiner. I
15 have worked for Integrys Energy Group, Inc. or Peoples Energy Corporation for
16 over eleven years and have mainly served in an internal audit capacity. I
17 assumed my current role in July 2007.

18 Q. What is the purpose of your testimony?

19 A. The purpose of my testimony is to respond, on behalf of The Peoples Gas Light
20 and Coke Company ("Peoples Gas"), to an unsigned letter that at least three
21 Illinois Commerce Commission ("Commission") Commissioners received and that
22 is posted as an *ex parte* communication on the Commission's e-Docket website
23 in the above-captioned proceeding ("2013 Anonymous Letter"). I describe, in
24 general, Integrys Energy Group Inc.'s ("Integrys") process for investigating all
25 allegations including those included in the letter. (Integrys is the ultimate parent
26 company of IBS and Peoples Gas.) As the letter included allegations that
27 Peoples Gas personnel falsified records, I focus on steps we take to investigate
28 allegations of falsification and describe the applicable corrective action process.
29 Finally, I specifically describe the steps we took to investigate the 2013
30 Anonymous Letter's allegations. Peoples Gas witness Thomas J. Webb testifies
31 about operational matters raised by the letter (PGL Exhibit ("Ex.") 4.0).

32 Q. Please summarize the conclusions of your testimony.

33 A. Based on our review of the 2013 Anonymous Letter and a substantially similar
34 letter from 2012, we found no evidence to corroborate a systemic issue of
35 employees falsifying records.

36 Q. Do you have any attachments to your testimony?

37 A. Yes.

38 • PGL Ex. 3.1: Investigation Process

39 • PGL Ex. 3.2: Ethics Line Process

40 • PGL Ex. 3.3: Timeline

41 • PGL Ex. 3.4: Letter to Employees Regarding Reorganization and

42 Organization Charts

43 **INTEGRYS PROCESS FOR INVESTIGATING ALLEGATIONS**

44 **A. General Process**

45 Q. Does Integrys have a process for investigating allegations of misconduct?

46 A. Yes. Integrys takes all allegations of misconduct seriously and has a process to
47 investigate them, which I describe below.

48 Q. The 2013 Anonymous Letter author directed his or her concerns to the
49 Commission. Does Integrys have ways for employees to raise concerns within
50 the company?

51 A. Yes. Integrys has several ways employees can report misconduct. First,
52 Integrys supports an open door policy and encourages employees to speak
53 directly with their leader, another leader, one of the designated Ethics Contacts
54 or IBS' Human Resources Department about potential issues or misconduct.
55 Integrys also has an employee Ethics Line, independently operated by a third-
56 party, which employees can use to report misconduct, online or by phone. They
57 can choose to remain anonymous or identify themselves for the company to
58 follow up with directly. Additionally, Integrys conducts an annual survey of all

59 employees, the Code of Conduct Questionnaire, asking if one has witnessed or
60 is aware of any misconduct.

61 Q. Are these means available to all employees, including Peoples Gas employees?

62 A. Yes. Integrys takes steps to make employees aware of these reporting avenues.

63 For example, the Code of Conduct and the Ethics Line information are given to
64 every new employee during orientation and are available on our internal intranet;
65 Ethics Line posters are in all company locations; the Code of Conduct training is
66 required for every employee every two years; the annual Code of Conduct
67 questionnaire gauges employees' awareness and trust of the Ethics Line, and for
68 any negative response, a personal follow up is conducted to address the
69 concerns; every 5 years, Integrys conducts an updated Ethics Line
70 awareness/education campaign; and the use of the Ethics Line is benchmarked
71 annually, where we are able to determine if awareness has changed and actions
72 taken, if necessary.

73 Q. When Integrys receives allegations such as those in the 2013 Anonymous Letter,
74 what steps does it take?

75 A. We have an established routing (triage) based on the type of allegation. We also
76 have an established "Rules of Investigation" ensuring the right resources are
77 involved in the review of the issue. At a high-level summary, once an allegation
78 is received, a cross-functional team is formed based on the allegation triage and
79 Rules of Investigation processes; an Operations subject matter expert may be
80 engaged to help gather, review and conclude on the data; members of the cross
81 functional team report the results of the investigation to management personnel,

82 who may involve the business unit, Human Resources, Compliance function(s),
83 and Internal Audit Services; and then appropriate corrective action is taken. PGL
84 Ex. 3.1 is a schematic of our Investigation Process.

85 Q. Does Peoples Gas interview employees as part of its investigations?

86 A. Yes. We will interview employees when appropriate as part of the data gathering
87 process and/or as part of the corrective action process. For example, an
88 interview would occur if information was not obvious from other documents and if
89 the information to be obtained involved events that are recent in time to insure
90 reliability.

91 Q. Does Peoples Gas interview former employees as part of its investigations?

92 A. Yes. We will seek to interview former employees when it is deemed appropriate.
93 For example, if the event involves a recent event and it is determined that the
94 employee may have important information, the company may contact the former
95 employee and ask for his or her voluntary participation.

96 Q. To whom does Integrys report the findings of its investigation?

97 A. The Ethics Line is overseen by a three-person Ethics Committee, which includes
98 the Vice President of Human Resources, Vice President - General Counsel and
99 Secretary, and Assistant Vice President of Internal Audit Services. This
100 committee is aware of all Ethics Line allegations and reviews and approves the
101 disposition of all cases prior to closure. Ethics Line cases are also reported
102 quarterly to the Audit Committee of the Integrys Board of Directors. PGL Ex. 3.2
103 shows the Ethics Line process.

104 Q. Has Integrys reported any such findings to the Commission?

105 A. Mr. Webb describes Peoples Gas' practice concerning operational matters.

106 **B. Falsification Allegations**

107 Q. Has Integrys received any communications through the avenues you described
108 above that allege falsification of records?

109 A. Yes. Integrys has received 55 allegations of potential falsification of records over
110 the past five years. Seventeen of those related to Peoples Gas employees.

111 Q. Does Integrys' investigation of this type of allegation include any actions other
112 than what you generally described for investigations?

113 A. Yes, when we have an allegation of falsified inspection records, in addition to the
114 investigation steps aforementioned, we immediately re-inspect the specified
115 location. For example, for an allegation concerning falsified safety survey or any
116 work related to a facility, we will immediately have a field supervisor (independent
117 of the employee who is the subject of the allegation) go out and re-inspect the
118 facility to ensure there are no safety concerns. If any safety issues are found, the
119 normal emergency work order process is followed ensuring that the facility is
120 prioritized until the risk is eliminated.

121 **C. Corrective Action**

122 Q. If an investigation shows that misconduct, such as records falsification, occurred,
123 does Integrys take corrective action?

124 A. Yes. Integrys' policies and practices generally provide for corrective action.
125 Corrective action can include any action from suspension without pay to
126 termination.

127 Q. Has Integrys taken corrective action against Peoples Gas employees for
128 falsification of records?

129 A. Yes. For the 13 instances that were substantiated over the last five years,
130 corrective action was taken, including disciplinary layoffs up to termination of
131 employment.

132 Q. Has Integrys taken corrective action against employees other than Peoples Gas
133 employees for falsification of records?

134 A. Yes. For the 27 instances involving other employees that were substantiated,
135 Integrys took corrective action, including disciplinary layoffs up to termination of
136 employment.

137 **2013 ANONYMOUS LETTER**

138 Q. Did you participate in the review of the 2013 Anonymous Letter?

139 A. Yes.

140 Q. Please describe the review of the 2013 Anonymous Letter.

141 A. When the company received the 2013 Anonymous Letter, we recognized that it
142 was similar to an unsigned letter the company received in September 2012 (the
143 "2012 Anonymous Letter"). Comparing the allegations in the letters was a key
144 step in our review.

145 Q. Please describe the 2012 Anonymous Letter.

146 A. The 2012 Anonymous Letter, dated September 23, 2012, was sent to several
147 members of Integrys' Board of Directors. That letter included a three-page
148 document called "The Story of Six Peoples Gas Operations Area Directors." Like
149 the 2013 Anonymous Letter, it alleges that Peoples Gas personnel falsified

150 compliance reports and claims that the company penalized a director who
151 refused to falsify reports. The 2012 Anonymous Letter is somewhat more
152 detailed than the 2013 Anonymous Letter, but shares the allegations of records
153 falsification and unfair personnel decisions.

154 Q. Please specifically describe the similarities and the differences between the two
155 anonymous letters.

156 A. General similarities are that the author(s) did not identify himself or herself; the
157 author(s) sent the letters to external parties; the author(s) focused on claims of
158 records falsification and incorrect submissions to the Commission without
159 specific details as to which records or submissions; and the author(s) asked for
160 the recipient to take action. On the last point, the 2012 Anonymous Letter asked
161 Integrys' Board members to "make it right" and the 2013 Anonymous Letter
162 asked the Commission to impose a fine in excess of \$2 million in this proceeding.
163 The most striking similarities are the descriptions of people in the letters. The
164 2012 Anonymous Letter described six employees that the author identified as
165 Peoples Gas directors and another employee identified as the wife of one of
166 these directors. The 2013 Anonymous Letter described five employees who the
167 author identified as Peoples Gas directors and another employee identified as
168 the wife of one of these directors. Other than the omission of one director in the
169 second letter, the persons being described are identical. Both letters address
170 corporate culture in a negative light and allege that the company intimidated and
171 retaliated against a director who claims the company asked him to falsify records
172 upon his refusal to do so as well as retaliating against his wife. Neither letter

173 identifies the types of records or the nature of the falsification that the company
174 allegedly wanted the director to falsify.

175 The differences are limited. The 2012 Anonymous Letter is more detailed and,
176 as part of the descriptions, indicated the race of the directors. The 2013

177 Anonymous Letter author claims to be a current employee. The 2012

178 Anonymous Letter does not expressly state if the author is a current or former
179 employee although it seems to be from the perspective of a former employee.

180 The 2012 Anonymous Letter referenced three Commission dockets for another

181 Illinois utility and the 2013 Anonymous Letter referenced this Peoples Gas docket
182 but not the other dockets.

183 Q. When Integrys received the 2012 Anonymous Letter, what investigation did it
184 conduct?

185 A. Consistent with my earlier description of Integrys' investigation process, we
186 assembled a multi-functional team to review the allegations. The team included
187 members of Internal Audit Services, Legal and Governance Services, Human
188 Resources and Gas Operations. The team separated the allegations between
189 personnel matters and Gas Operations matters. The team then, based on a
190 timeline developed from the events described in the letter, which I discuss below,
191 attempted to identify the directors and the one director's wife described in the
192 letter and was able to do so with a high degree of confidence. The purpose of
193 identifying the persons described in the letter was to help develop a timeline
194 because the letter did not otherwise provide any detail to investigate the
195 allegations. The team also reviewed files for information pertinent to the

196 allegations. The files reviewed included archived personnel files, departmental
197 files and information relating to Peoples Energy Corporation's¹ ("PEC")
198 reorganization. The team spoke with one retired officer.

199 Q. What conclusions did the team reach about the Gas Operations matters?

200 A. The team concluded that the allegations had been the subject of independent
201 external review. I describe that review, conducted in 2006, in detail later in my
202 testimony. Those reviews did not support the claims of a culture that fostered
203 and encouraged records falsification.

204 Q. What conclusions did the team reach about the personnel matters?

205 A. The team concluded the allegations were without merit. As I discuss below, all
206 described employees left the company through voluntary separation agreements
207 or retirement or had been hired or promoted in accordance with PEC's normal
208 company processes in effect at that time.

209 Q. You stated that Integrys interviewed a retired officer as part of its investigation of
210 the 2012 Anonymous Letter. What did Integrys learn from that interview?

211 A. This retiree provided background about the corporate reorganization in 2004 that
212 led to some of the separations and retirements of the employees identified in the
213 letter and provided names of some people who left the company in connection
214 with that reorganization. Other than this interview, we did not conduct interviews
215 as the timing of the issues tied back to a prior investigation that involved
216 extensive interviews.

217 Q. You stated that Integrys was able to identify with a high degree of confidence the
218 persons described in the letters. Why was this important?

¹ Peoples Energy Corporation is, as of March 1, 2011, Peoples Energy, LLC.

219 A. First, it allowed Integrys to determine the time period that the author was
220 describing. Second, it allowed Integrys to determine that the author's suggestion
221 of unfair employment actions had no merit.

222 Q. What is the time period and why is this significant?

223 A. Many of the events dated back to 2004 – 2005. This is significant because in
224 2004, PEC undertook a substantial reorganization. Moreover, in 2006, PEC's
225 Board of Directors investigated an anonymous letter ("2006 Anonymous Letter"),
226 due to the seriousness of the allegations, that included several allegations of
227 operational problems.

228 Q. Please describe PGL Ex. 3.3.

229 A. This exhibit is a timeline that we developed after we received the 2013
230 Anonymous Letter. We sought to place the personnel and operational events
231 described in that and the 2012 Anonymous Letter along a timeline that also
232 shows significant corporate events (the reorganization and WPS Resources'
233 (now Integrys) acquisition of PEC) and the dates of the 2006, 2012, and 2013
234 Anonymous Letters. The timeline also shows the dates associated with the
235 Commission's gas pipeline audit independently conducted by a third party (The
236 Liberty Consulting Group ("Liberty")). It illustrates that the claims in the 2012 and
237 2013 Anonymous Letters are dated and why the company's investigation of
238 those letters was able to rely upon prior investigations.

239 Q. Please describe the PEC reorganization.

240 A. The 2004 reorganization was, in significant part, a cost cutting measure in the
241 support services departments. It resulted in voluntary and involuntary

242 separations, retirements, departmental restructuring and personnel moving from
243 one area to another, sometimes with a reduction in salary grade. For example,
244 while the Gas Operations area (unlike support areas) was not targeted for
245 staffing reductions, some departments were reorganized and job titles and pay
246 grades changed.

247 Q. How does the reorganization tie to the two letters?

248 A. The reorganization was the source of much of the personnel movement that the
249 author(s) described. While the reorganization affected hundreds of employees
250 and many departments throughout the company, the author(s) focused on the
251 Gas Operations area. PGL Ex. 3.4, a letter to employees during the
252 reorganization process, generally describes the magnitude of changes.

253 Q. What is the relevance of the 2006 Anonymous Letter to the 2012 Anonymous
254 Letter and the 2013 Anonymous Letter?

255 A. The 2006 Anonymous Letter included several allegations about operational
256 matters. For example, that letter alleged that certain safety inspections had not
257 been completed or had been performed incorrectly and deficiencies in meter
258 reading practices existed. The allegations about inspection issues correlate to
259 the records falsification claims in the 2012 and 2013 Anonymous Letters.

260 Q. You stated that the company investigated the 2006 Anonymous Letter. Please
261 describe that investigation.

262 A. The Audit Committee of PEC's Board of Directors engaged outside counsel to
263 conduct an independent investigation.

264 Q. Please explain why the Board would have engaged outside counsel for such an
265 investigation.

266 A. Based on the serious nature of the allegations, the Audit Committee of PEC's
267 Board of Directors upheld its duty to independently review the validity of the
268 claims. They felt it best to hire an independent, objective firm to achieve this
269 goal.

270 Q. What assured the independence of the investigation?

271 A. The Audit Committee of PEC's Board of Directors oversaw this investigation. Its
272 Audit Committee formed an *ad hoc* subcommittee to oversee the investigation.
273 In 2006, the PEC Board of Directors consisted of 11 directors, of whom 10 were
274 outside directors (*i.e.*, not PEC or PEC subsidiary employees). The Board
275 engaged an outside law firm to conduct the investigation. That law firm retained
276 an engineering firm with public utility expertise and a consulting firm with
277 accounting and internal investigation expertise to assist with the investigation.

278 Q. How did the firm conduct its investigation?

279 A. As I stated above, the firm engaged two consultants to assist with the
280 investigation. They spent over 7,600 hours conducting the investigation. The
281 firm and the consultants conducted ninety interviews, reviewed over 69,000
282 emails, and analyzed extensive databases used to run Peoples Gas' operations.
283 The interviews ranged from senior management and other management
284 personnel to field staff, including operations apprentices, at Peoples Gas' three
285 shops. Our review showed that the 2006 interviews included several employees,
286 some of whom we believe were the subject of the 2012 and 2013 Anonymous

287 Letters. The data collection included imaging hard drives from several
288 employees, collection of email backup tapes from two dates (before and shortly
289 after the investigation was announced), collection of network backup tapes and
290 extraction of operational data from several key databases. They worked with
291 approximately 30 people in the IT department to access, gather and understand
292 company data.

293 Q. What were the areas of inquiry?

294 A. Based on the anonymous letters, the investigation covered:

- 295 • Inside safety inspections
- 296 • Rotary meter inspections
- 297 • Pipe insurance program
- 298 • Consecutive estimated accounts and Inoperable radio meter reads
- 299 • Revenue leakage issues
- 300 • Unregulated business activities
- 301 • Service terminations
- 302 • Improper contracting with related parties
- 303 • Quid pro quo donations
- 304 • Special account handling
- 305 • Disparate service
- 306 • Occupational Safety and Health Administration Reporting

307 In general, for each area of inquiry, outside counsel's final report identified the
308 allegations, described the steps that the investigators took, and detailed its
309 conclusions and recommendations.

310 Q. What conclusions did outside counsel reach?

311 A. They found no evidence of pervasive wrongdoing as alleged in the 2006
312 Anonymous Letter. However, they recommended some process improvements.

313 Q. Did the Commission receive outside counsel's report?

314 A. Yes. By letter dated August 14, 2006, Peoples Gas sent the report to the
315 Commission.

316 Q. Did the 2013 team review any other external reports or investigations to address
317 operational allegations in the 2012 Anonymous Letter?

318 A. Yes. We reviewed Commission Orders and related material in proceedings that
319 touched on the same operational matters. Specifically, we considered Docket
320 Nos. 05-0341 (inside safety inspections), 06-0311 (corrosion control), 07-
321 0241/07-0242 (cons.) (general rate cases that included evidence concerning
322 consecutively estimated meter readings for Peoples Gas accounts), and 08-0028
323 (inside safety inspections and corrosion control). These proceedings
324 represented independent and public reviews (the Commission and its Staff) of
325 some of the operational issues raised in the letter. While the Commission found
326 shortcomings, it found no records falsification. Also, as shown on the timeline,
327 Peoples Gas was the subject of a detailed management audit conducted by
328 Liberty. Liberty issued its Final Report in August 2008 and then issued eight
329 quarterly verification reports, with the final report issued in December 2010.
330 Finally, we reviewed three dockets for another gas utility that the author
331 referenced with respect to a person we hired.

332 Q. You stated that Integrys determined that the 2012 Anonymous Letter author's
333 suggestion of unfair employment actions had no merit. Please explain.

334 A. The investigation did not substantiate the allegations of wrongdoing. The
335 persons identified as being promoted or hired were not subject to special or
336 preferential treatment. The individuals who retired or otherwise left the company
337 did so voluntarily and under terms and conditions the same as those available to
338 other employees. Additionally, Integrys checked to see if any claims or charges
339 has been filed against the company claiming unfair employment action in any
340 forum such as the Illinois Department of Human Rights, Equal Employment
341 Opportunity Commission, state or federal courts. No such filings were made at
342 any time.

343 Q. If an employee chose to leave the company as part of the reorganization, would
344 that employee enter into an agreement?

345 A. Yes. The company had standard agreements. Compensation was defined by a
346 formula that was generally based on factors such as salary history and years of
347 service. The company also made other Special Career Transition services
348 available, such as reduced COBRA costs, enhanced educational assistance and
349 extended Employee Assistance Program coverage. By signing the agreement,
350 the employee agreed to forego other compensation that may have been
351 available, such as unemployment benefits, and wrongful termination claims. The
352 agreements were confidential.

353 Q. Did any of the people described in the 2012 and 2013 Anonymous Letters leave
354 the company as part of the reorganization?

355 A. Yes. We believe three people voluntarily left as part of the reorganization.

356 Q. Did those persons enter into agreements consistent with what was offered to all
357 employees?

358 A. Yes.

359 Q. The 2012 and 2013 Anonymous Letters include allegations about a director's
360 wife. Is she still with Integrys?

361 A. No. As the letters stated, she retired. Her retirement in 2009 was with full
362 pension and benefits based on her years of service and other factors used in
363 determining benefits for all employees under the retirement plan in effect at that
364 time. While the allegations state that she was "fired" and this suggests a break in
365 service, our records do not reflect a service break, nor any adverse effects on
366 retirement benefits associated with the "firing."

367 Q. Does Integrys know who authored the 2012 Anonymous Letter?

368 A. We do not know this with the same degree of certainty with which we were able
369 to identify the persons described in the letter. However, the envelope included a
370 return address, and, while not an employee's or former employee's address,
371 property records showed the address was for a person with a connection to a
372 former employee. For that reason, we concluded that the author was that former
373 employee.

374 Q. Does Integrys know who authored the 2013 Anonymous Letter?

375 A. In this case, we do not have a return address or other indication of the writer.
376 However, as described above, the content is very similar to the 2012 Anonymous

377 Letter. It is probable that the author is the same and, if not, almost certainly the
378 author is a person with access to the 2012 Anonymous Letter.

379 Q. Did Integrys attempt to communicate with the former employee that the company
380 believes wrote the 2012 Anonymous Letter?

381 A. Yes. Integrys' Assistant Vice President of Internal Audit Services sent a letter to
382 the return address shown on the 2012 Anonymous Letter. He stated that we had
383 reviewed the allegations in the letter and closed the matter. He invited the
384 person to contact him and provided his telephone number. The company did not
385 receive a response to this letter.

386 Q. The author of the 2013 Anonymous Letter describes himself or herself as a
387 current employee. Integrys believes that the 2012 Anonymous Letter author is a
388 former employee. Does that mean that the authors must be different people?

389 A. While it is possible that the 2013 Anonymous Letter author is a current employee,
390 the mere fact that the author made that statement does not mean it is true. For
391 example, the author refers to a Vice President who reports to another Vice
392 President and has no direct reports. That statement is factually inaccurate. A
393 current employee could easily see from information available to all employees
394 that the Vice President has direct reports.

395 Q. Does this conclude your supplemental direct testimony?

396 A. Yes.