PUBLIC VERSION

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys Energy Group, Inc., Peoples Energy, LLC, The Peoples Gas Light and Coke Company, North Shore Gas Company, ATC Management Inc., and American Transmission Company LLC	))))))	
Application pursuant to Section 7-204 of the Public Utilities Act for authority to engage in a Reorganization, to enter into an agreement with affiliated interests pursuant to Section 7-101, and for such other approvals as may be required under the Public Utilities Act to effectuate the Reorganization.	))))))))	Docket No. 14-0496

DIRECT TESTIMONY OF
DAVID J. EFFRON
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS

AG Exhibit 1.0

November 20, 2014

ICC DOCKET NO. 14-0496
DIRECT TESTIMONY OF DAVID J. EFFRON

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EXHIBIT LIST

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. What is your present occupation?

A. I am a consultant specializing in utility regulation.

Q. Please summarize your professional experience.

A. My professional career includes over thirty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant and I have served as an instructor in the business program at Western Connecticut State College.

Q. What experience do you have in the area of utility rate setting proceedings and other utility matters?

A. I have analyzed numerous electric, gas, telephone, and water filings in different jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys in case preparation, and provided assistance during settlement negotiations with various utility companies.

I have testified in over two hundred cases before regulatory commissions in Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Q. Please describe your other work experience.

A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for reports and analyses concerning capital spending programs, including project analysis, formulation of capital budgets, establishment of accounting procedures, monitoring capital spending and administration of the leasing program. At Touche Ross & Co., I was an associate consultant in management services for one year and a staff auditor for one year.

Q. Have you earned any distinctions as a Certified Public Accountant?

A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 certified public accounting examination in New York State.

Q. Please describe your educational background.

A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters of Business Administration Degree from Columbia University.

II. INTRODUCTION AND SUMMARY OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the People of the State of Illinois as represented by the Illinois Attorney General ("AG").

Q. What is the purpose of your testimony?

A. Wisconsin Energy Corporation ("Wisconsin Energy"), Integrys Energy Group, Inc. ("Integrys"), Peoples Energy, LLC ("PELLC"), The Peoples Gas Light and Coke Company ("Peoples Gas" or "PGL"), North Shore Gas Company ("North Shore" or "NS"), ATC Management Inc., and American Transmission Company LLC (collectively, the "Joint Applicants" or "JA") are seeking approval from the Illinois Commerce Commission ("the Commission") to engage in certain transactions that will result in a reorganization of Peoples Gas and North Shore (together, "the Gas Companies"). The proposed reorganization (or "Merger") entails the acquisition of 100% of the outstanding common stock of Integrys by Wisconsin Energy to create a new holding company – WEC Energy Group, Inc. ("WEC Energy Group") – that will wholly own PELLC, with the Gas Companies continuing to exist and operate as wholly-owned indirect subsidiaries of WEC Energy Group.

As part of their application for Commission approval, the Joint Applicants have made certain representations and commitments with regard to: the treatment of the acquisition premium that will be booked as a result of the merger, the minimum number of employees to be maintained in Illinois, and the Gas Companies' rates subsequent to the merger. The purpose of my testimony is to address and evaluate these three commitments in particular as they relate to the Gas Companies' ratepayers.

Q. Please summarize your testimony.

A. The Joint Applicants have stated that any goodwill (or acquisition premium) booked as a result of the proposed transaction will be disregarded in the determination of revenue requirements in all future ratemaking proceedings. The exclusion of the effect of the goodwill is appropriate.

The Joint Applicants have committed to maintaining at least 1,953 full time equivalent ("FTE") employee positions in Illinois for two years after the closing of the merger. This commitment has little or no value to customers.

The Joint Applicants have committed that any future requests to change the Gas Companies' base distribution rates would not become effective any earlier than two years after the Transaction closes. The value of this commitment is contingent on the outcome of the Gas Companies' ongoing rate cases, Docket Nos. 14-0224/0225 (cons.).

The Commission should not approve the Reorganization absent modifications to the employee headcount and rate commitments that would ensure that these commitments are meaningful and beneficial to customers.

III. ACQUISITION PREMIUM

Q. Please summarize the proposed merger transaction.

A. Wisconsin Energy and Integrys have entered into a Merger Agreement whereby Wisconsin Energy will acquire 100% of the outstanding common stock of Integrys in exchange for a combination of Wisconsin Energy common stock and cash with a total value equal to approximately $71 per share based on the share values as of June 20, 2014. Subsequent to the completion of the merger, the Gas Companies will be indirect subsidiaries of the merged entity, WEC Energy Group. The merger is expected to close in the second half of 2015. JA Ex. 1.0 at 11-14.

Q. Do the Joint Applicants expect the proposed transaction will result in the recording of an acquisition premium?

A. Yes. Because it is expected that Integrys shares will be acquired at a premium to the fair value of the net assets being purchased, an acquisition premium (or "goodwill"), representing the excess of the purchase price over the net book value of the assets being acquired, will be recorded. The exact amount of the acquisition premium will not be known until the merger actually closes, but based on the relative share prices and the Integrys net book value as of June 2014, the contemplated transaction will result in an acquisition premium of approximately $2.2 billion.

Generally, "push down" accounting would require that a portion of the goodwill recorded as a result of the transaction be reflected on the Gas Companies' books. However, the Joint Applicants have stated that they expect that conditions allowing exceptions to push down accounting will be met and that the Gas Companies will be able to elect not to report any pushed down acquisition premium on their own financial statements. JA Ex. 2.0 (Rev.), at 4-5. Thus, it is expected that the acquisition premium will not appear on the Companies' financial statements.

Q. How are the Joint Applicants proposing to treat this goodwill for ratemaking purposes?

A. The Joint Applicants have committed to exclude the goodwill from the determination of the Gas Companies' rates, irrespective of whether push down accounting is required or not. The balance of goodwill on the Gas Companies' balance sheet, if any, will not be included in rate base. Amortization of goodwill, if any, will not be included in operating expenses. JA Ex. 1.0, at 22.

Q. Do you agree with the treatment proposed by the Joint Applicants?

A. Yes. As a general matter, an acquisition premium is the result of a transfer of wealth from one group of shareholders to another group of shareholders. The excess over net book value being paid is based on capitalization of the expected future earnings in excess of the cost of capital. In theory, if the rate of return earned by each of the Gas Companies is equal to its actual cost of capital, then none of the goodwill is properly allocable to those regulated utility operations. In any event, the price being paid for the Integrys shares in excess of the net book value of those shares is a matter between the shareholders of the two companies involved in the merger, and should not be the responsibility of ratepayers. The goodwill in this case is the result of the excess of the Integrys purchase price over Integrys' net book value, something that was determined by the shareholders of Wisconsin Energy and Integrys, without any input from ratepayers, and is not related to the cost of providing service to the Gas Companies' customers.

In addition to excluding the goodwill from rate base and any amortization of goodwill from operating expenses, common equity supporting the goodwill should not be included in the Gas Companies' capital structure for the purpose of calculating the authorized rate of return on rate base. In response to AG Data Request 2.02, the Joint Applicants have also represented that they will not include of any portion of the acquisition premium in common equity for revenue requirement purposes. This commitment is also appropriate.

Q. Of what value is the commitment to exclude the acquisition premium from the cost of service to ratepayers?

A. It is of limited value, at best. As a general rule, goodwill is excluded from the determination of utility revenue requirements, as purchase goodwill does not represent an investment in assets used to provide utility service. Therefore, it is unlikely that the goodwill would be reflected in the cost of service, even absent the Joint Applicants' commitment. However, the Joint Applicants' commitment eliminates the treatment of the acquisition premium for ratemaking purposes as a potential future issue and therefore may be viewed as having some limited value in that regard.

IV. EMPLOYEE COMPLEMENT

Q. Please describe the commitment regarding the number of employees subsequent to the closing of the merger.

A. The Joint Applicants have committed that for two years after the closing of the merger, at least 1,953 full time equivalent ("FTE") employee positions will be maintained in Illinois (JA Ex. 1.0, at 18:381-384). The response to Staff Data Request ENG 1.23 (attached as AG Ex. 1.1) states that the commitment of 1,953 FTEs is based on 166 FTEs at North Shore, 1,294 FTEs at Peoples Gas, and 493 Illinois based Integrys Business Support ("IBS") FTEs. The Joint Applicants clarify that while the commitment is based on those headcounts, it is in the aggregate, not by company. There is no description of how this commitment breaks down between administrative support and front line operational employees.

Q. How do those headcounts compare to headcounts forecasted by the Gas Companies for 2015 in their pending rate cases, Docket Nos. 14-0224/0225 (cons.)?

A. North Shore and Peoples Gas are forecasting 178 and 1,356 FTEs, respectively, for the 2015 Test Year. Those forecasts exceed the Joint Applicants' minimum commitments in the present case by 12 FTEs, or approximately 7%, for North Shore and by 62 FTEs, or approximately 5%, for Peoples Gas. In response to AG Data Request 3.02 (attached as AG Ex. 1.2), the Joint Applicants noted that "FTE levels for Peoples Gas and North Shore stated in the Joint Applicants' response to Staff data request [ENG] 1.23 do not represent the post-merger 'headcounts' forecasted for Peoples Gas and North Shore" and that the Joint Applicants adopt the levels of FTEs forecasted by Peoples Gas and North Shore in their pending rate cases as the forecasts of FTEs that will actually be in place in 2015. The 1,953 FTEs represent "a 'floor-level' of FTEs below which the post-merger company, WEC Energy Group, will not allow its employment levels in Illinois to fall for a period of two years after the closing of the Transaction" (Joint Applicants' response to Staff Data Request ENG 3.04).

Q. In your opinion, do the differences between the forecasted headcounts in Docket Nos. 14-0224/0225 (cons.) and the minimum FTEs in Illinois that the Joint Applicants have committed to maintain raise certain concerns?

A. Yes. If, as claimed in the rate cases, the Gas Companies really expect to have 178 FTEs for North Shore and 1,356 FTEs for Peoples Gas in 2015, then the Joint Applicants' employee complement commitment in this case has little, if any substantive value, as there is little or no chance that the "floor-levels" will ever be a factor in the Gas Companies' actual employee headcounts. On the other hand, if there is no adjustment to the Gas Companies' forecasted employee levels in the rate cases, and if the actual employee complement commitment decreases to the stated "floor-levels", then the Gas Companies' rates subsequent to the Merger will be based on a revenue requirement that includes the expense of non-existent employees.

Further, the very first commitment offered by the Joint Applicants is "to provide high quality, safe and reliable service to [their] customers with competitive pricing" (JA Ex. 1.0, at 15:322-323). Based on this commitment, the Joint Applicants could not then turn around and commit to maintain headcounts below the employee complements necessary "to provide high quality, safe and reliable service to … customers with competitive pricing." Thus, it follows that the "floor-level" of employees must be sufficient to provide high quality, safe and reliable service. It necessarily follows that North Shore and Peoples Gas included expenses for employees in excess of those needed to provide high quality, safe and reliable service in their revenue requirements in the rate cases.

It should also be recognized that the forecasted employee levels in the rate cases represent increases over the latest known actual level of employees. As of July 2014, North Shore had 164 employees and Peoples Gas had 1,314 employees (Docket Nos. 14-0224/0225 (cons.), AG Ex. 7.0, at 9-10). If the Gas Companies actually maintain their employee complements at the levels necessary (according to the Joint Applicants' commitment in this docket) to provide high quality, safe and reliable service (which would require a slight *addition* to the actual North Shore employee complement as of July 2014 and a slight reduction to the Peoples Gas employee complement as of that month), this will result in a windfall to shareholders, as the Gas Companies will be collecting revenues for the expense of non-existent employees. With regard to Peoples Gas, the actual employee complement of 1,314 as of July 2014 is above the number necessary to provide high quality, safe and reliable service based on the Joint Applicants' commitment in this docket but is below the level reflected in its revenue requirement in the rate case.

Q. Of what value, then, is the commitment to maintain a "floor-level" of employees from the perspective of ratepayers?

A. If the Gas Companies actually employ the headcounts forecasted in the rate cases, then this commitment is of no value, as the floor-levels in the commitment will not be a factor in the actual number of employees. Conversely, if the Gas Companies actually employ the headcounts shown in the response to Staff Data Request ENG 1.23 (a commitment of 1,953 FTEs based on an assumed 166 FTEs at North Shore, 1,294 FTEs at Peoples Gas, and 493 Illinois-based IBS FTEs), there will be a windfall to shareholders, as the Gas Companies will be recovering the cost of non-existent employees in their rates (absent any adjustment to the Gas Companies' forecasts of 2015 test-year employees in the rate case). Therefore, from the perspective of ratepayers, this commitment has no value.

V. RATE COMMITMENTS

Q. Have the Joint Applicants made any commitments regarding the Gas Companies' rates subsequent to the merger?

A. Yes. The Joint Applicants have committed that, after the completion of the presently pending rate cases (Docket Nos. 14-0224/14-0225 (cons.)), any future requests to change the Gas Companies' base rates would not become effective any earlier than two years after the Transaction closes (JA Ex. 1.0, at 21). This commitment is contingent on the continuation of the riders presently in effect and the maintenance of the Gas Companies' financial integrity.

Q. Does this commitment have any value to customers?

A. If the merger were to close in July 2015, then the Joint Applicants' commitment would mean that any request to change the Gas Companies' base rates would not become effective before July 2017. Based on the pattern of recent rate case filings, in the absence of the commitment, the Gas Companies could be expected to file in 2015 an application to change rates that would be effective about September 2016. Therefore, this commitment could give ratepayers about ten months of protection from increased rates. By contrast, in Docket No. 11-0046, Northern Illinois Gas d/b/a Nicor Gas/Nicor, Inc./AGL Resources, Inc., the applicants committed to a three-year rate freeze.

Ultimately, however, the value of the Joint Applicants' rate commitment depends largely on the outcome of the pending Docket Nos. 14-0224/14-0225 (cons.). If the rates established in those cases reflect a reasonable revenue requirement based on the 2015 Test Year, then the rate commitment has some value to ratepayers, if only for a limited time. But if the rates established in those cases reflect expenses in excess of those that the Gas Companies can reasonably expect to incur during the term of the proposed rate freeze, then without a rate freeze, the probability of the Gas Companies' applying for new rates with an effective date before July 2017 is low, and thus this commitment fails to provide discernible benefit to customers. In this regard, the treatment of the costs of the Integrys Customer Experience ("ICE") project in Docket Nos. 14-0224/14-0225 (cons.) is of particular relevance.

Q. What is the ICE project?

A. The Gas Companies provided the following description of the ICE project in Docket Nos. 14-0224/14-0225 (cons.):

> The ICE project will unify Cfirst, which is the customer information system that Peoples Gas [and North Shore] currently uses, and the various customer information systems currently in use across Integrys. It will provide significant benefits to Peoples Gas [and North Shore] and the other Integrys regulated

> utilities such as improved efficiency and productivity and standardization of internal delivery which will improve customer satisfaction. In addition to unifying systems, the ICE project will improve and enhance billing, collections, call center, and self-service related offerings by ensuring that these functions are staffed appropriately to continue to leverage the opportunities of a large corporation, while maintaining the high level of service of a local utility.
>
> Docket Nos. 14-0224/14-0225 (cons.), PGL Ex. 13.0, at 10:207-215 (bracketed text added).

Q. Did the Gas Companies include expenses associated with the ICE project in their revenue requirements in Docket Nos. 14-0224/14-0225 (cons.)?

A. Yes. IBS owns the ICE assets, incurs the ICE expenses, and bills the ICE costs to the Integrys affiliates, including North Shore and Peoples Gas. There are two categories of non-labor expenses related to the ICE project that will be billed to the Gas Companies: return on assets ("ROA")/depreciation and non-labor O&M expenses, representing costs associated with project organizational readiness. The following table summarizes the non-labor ICE costs reflected in the 2015 test-year revenue requirement in Docket Nos. 14-0224/14-0225 (cons.):

	($000)		
	North Shore	Peoples Gas	Total
ROA/Depreciation	$ 1,378	$ 7,263	$ 8,641
Non-labor O&M	1,504	9,058	10,562
Total	$ 2,882	$ 16,321	$ 19,203

Q. Is it expected that the ICE project will also produce significant cost savings?

A. Yes. As explained in the description of the ICE project cited above, the ICE system will result in efficiencies that will produce reductions to costs presently being incurred. In fact it is expected that ICE will produce a "net benefit (a credit to expense, i.e. pre-tax reduction in O&M)," which is "derived from forecasted system savings greater than forecasted system costs" Joint Applicants' response to Data Request AG 2.13, attached as AG Ex. 1.3.

Q. Did the Gas Companies also reflect the forecasted cost reductions related to the ICE project in determination of the test-year revenue requirements in Docket Nos. 14-0224/14-0225 (cons.)?

A. No.

Q. Why not?

A. It was the position of the Gas Companies that ICE savings were to be achieved starting in 2016, with no reductions in the 2015 Test Year. Response to AG Data Request PGL 11.08, Docket Nos. 14-0224/14-0225 (cons.), attached as AG Ex. 1.4. In other words, based on the scenario presented by the Gas Companies in the rate cases, the in-service of the ICE project would be precisely timed so that a full year of costs (in excess of $19 million) would be billed to the Gas Companies in the twelve-month period that just happened to coincide with the Test Year, while, conveniently, no savings whatsoever (savings that would fully offset those costs) would be experienced until one day after the end of the Test Year. In my opinion, such a timeline for the costs and savings of the ICE project is improbable in the extreme.

Q. Is there any actual documentary evidence that the timing of the ICE costs and savings differs from what the Gas Companies presented in the rate cases?

A. Yes. In AG Data Request 2.13, the Joint Applicants were asked to explain what the statement on JA Ex. 4.1 *CONFIDENTIAL*, Page 4, that "[redacted]" with regard to the ICE project means. The Joint Applicants responded that: "The ICE 2016 project estimated net benefits beginning in 2015. The initial O&M estimate in the forecast years was reduced by the estimated amount of net benefit of the project. The net benefit (a credit to expense, i.e. pre-tax reduction in O&M) was derived from forecasted system savings greater than forecasted system costs."

AG Data Request 3.05 followed up on this response by requesting any studies and/or analyses supporting the statement that "credits indicate pre-tax reduction in O&M" with regard to the ICE project. The response to this request, attached as AG Ex. 1.5, includes an attached spreadsheet, JA AG 3.05 Attach 01CONFIDENTIAL, that was prepared in conjunction with the long-term financial forecast prepared in September 2012. This spreadsheet details the forecasted costs and benefits of the ICE project. It contains numerous inconsistencies with the version of the ICE costs and benefits presented by the Gas Companies in Docket Nos. 14-0224/14-0225 (cons.).

Q. What are the most salient inconsistencies between JA AG 3.05 Attach 01CONFIDENTIAL and the version of the ICE costs and benefits presented by the Gas Companies in Docket Nos. 14-0224/14-0225 (cons.)?

A. The most important inconsistencies between JA AG 3.05 Attach 01CONFIDENTIAL and the ICE expenses included in the 2015 Test Year in Docket Nos. 14-0224/14-0225 (cons.) are:

- In JA AG 3.05 Attach 01CONFIDENTIAL, charges to the Gas Companies for return on investment and depreciation [redacted], whereas in Docket Nos. 14-0224/14-0225 (cons.) Peoples Gas and North Shore assumed a full year of return and depreciation in 2015.
- In JA AG 3.05 Attach 01CONFIDENTIAL, the "hard benefits" (the actual reduction to O&M expenses presently being incurred, exclusive of any avoided costs) are shown as [redacted], whereas in the rate cases, the Gas Companies claimed that the 2015 Test Year would include a full year of ICE expenses, but none of the reductions to O&M expenses.
- In JA AG 3.05 Attach 01CONFIDENTIAL, the 2015 ICE O&M expense (the costs associated with project organizational readiness) allocated to Peoples Gas is $[redacted] and to North Shore is $[redacted]. In Docket Nos. 14-0224/14-0225 (cons.), the 2015 non-labor ICE O&M expense allocated to Peoples Gas is $9,058,000 (response to Data Request PGL AG 1.62 in the consolidated rate cases, attached as AG Ex. 1.6) and to North Shore is $1,504,000 (response to Data Request NS AG 1.54 in the same consolidated rate cases, also included in AG Ex. 1.6).

Q. How have the Joint Applicants explained these inconsistencies?

A. In response to AG Data Requests 5.08, 5.09, 5.11, and 5.13, the Joint Applicants stated that the basic justification for these inconsistencies was “that the response to AG 3.05 was support for an item in Joint Applicants’ Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. The rate case data in the Gas Companies’ Docket Nos. 14-0224/14-0225 (cons.) are to support a forecasted 2015 Test Year. The documents will necessarily be inconsistent because they were prepared at different points in time.”

Q. Does this satisfactorily explain the inconsistencies?

A. No. AG Data Request 3.06, attached as AG Ex. 1.7, asked the Joint Applicants: “Referring to the response to AG Data Request 2.13, to the extent that the assumptions (such as the ICE in-service date) on which the statement in JA Ex. 4.1 *CONFIDENTIAL* that ‘[redacted]’ have been revised, please describe such revisions, identify when the revisions took place, and quantify the effect of the revisions on the forecasted year-by-year costs and benefits of the ICE project.”

The Joint Applicants described one, and only one, change: “Subsequent to the compilation of data underlying JA AG 3.05 Attach 01 CONFIDENTIAL, the estimated ICE implementation date for the Gas Companies has moved from the second to the third quarter of 2015.”

If the estimated ICE implementation date for the Gas Companies was moved *back* from the second to the third quarter of 2015, it seems illogical that the billing for the ROA/depreciation on the ICE project would be moved *forward* from the beginning of 2016 to the beginning of 2015, as was assumed by the Gas Companies in the rate cases. And there is no way that moving the ICE implementation from the second to the third quarter of 2015 can even begin to explain the $[redacted] discrepancy between the 2015 ICE O&M expense allocated to the Gas Companies in JA AG 3.05 Attach 01CONFIDENTIAL and the 2015 ICE O&M expense allocated to the Gas Companies in the rate cases.

Q. If the billings for the ICE ROA/depreciation and the "hard benefits" of the ICE project [redacted], as shown in JA AG 3.05 Attach 01CONFIDENTIAL, what would the effect be on the Gas Companies' revenue requirements?

A. At that time, the ICE expenses for the Gas Companies together would be [redacted].

Q. How does this relate to the commitment not to request any changes to the Gas Companies' base rates that would become effective earlier than two years after the Transaction closes?

A. As noted above, the Gas Companies included $19.2 million of ICE costs in their revenue requirements in Docket Nos. 14-0224/14-0225 (cons.). If there is no adjustment to the ICE costs forecasted by the Gas Companies in those cases and the [redacted], then the Gas Companies will be recovering [redacted] when the ICE project goes into service. Those [redacted] expenses would consist of $10.6 million of O&M expenses associated with project readiness (which in JA AG 3.05 Attach 01CONFIDENTIAL are [redacted]) and $8.6 million in ROA/depreciation that would [redacted]. In effect, during the term of the proposed rate freeze, the customers would be charged for all of the annual costs of the ICE project, while [redacted].

VI. RECOMMENDATIONS

Q. Do you have any recommendations to make the Joint Applicants' commitments with regard to employee headcounts and rates actually meaningful and beneficial to customers?

A. Yes. In its Initial Brief in Docket Nos. 14-0224/14-0225 (cons.), the Commission Staff stated that "the Commission has the authority to investigate the Companies' rates and/or enter a temporary order fixing a temporary schedule of rates under Article 9 and to condition its approval of the Reorganization on the appropriate sharing of savings or to require compliance with other conditions to reflect the Reorganization's impact on rates." Docket Nos. 14-0224/14-0225 (cons.), Initial Brief of the Staff of the Illinois Commerce Commission, at 6.

North Shore is forecasting 178 FTEs for 2015, and Peoples Gas is forecasting 1,356 FTEs for 2015 in Docket Nos. 14-0224/0225 (cons.). The Joint Applicants' employee headcount commitment in this proceeding reflects 166 FTEs at North Shore and 1,294 FTEs at Peoples Gas. If the Gas Companies' forecasted headcounts are accepted by the Commission in Docket Nos. 14-0224/0225 (cons.), then the Commission should condition its approval of the Reorganization in the present case on any savings due to the difference between the headcounts for the Test Year reflected in the revenue requirements presented by the Gas Companies in Docket Nos. 14-0224/14-0225 (cons.) and the Joint Applicants' employee headcount commitment in the present case being properly credited to customers by means of a rider that would commence at the closing of the Transaction and would continue until the rates in the Gas Companies' next base rate case go into effect.

Additionally, North Shore included $2.9 million and Peoples Gas included $16.3 million of ICE expenses in their revenue requirements in Docket Nos. 14-0224/14-0225 (cons.). Evidence in the present case shows the benefits of the ICE project, in the form of cost reductions [redacted] the Gas Companies. If the Commission includes the Gas Companies' forecast of ICE costs in the revenue requirement in Docket Nos. 14-0224/14-0225 (cons.), then the Commission should condition its approval of the Reorganization in the present case on the [redacted] costs resulting from the in-service of the ICE project (the [redacted] organizational readiness expenses and the "hard benefits" in the form of other cost reductions) being properly credited to customers by means of a rider that would commence at the closing of the Transaction and would continue until the rates in the Gas Companies' next base rate case go into effect.

Q. Does this conclude your direct testimony?

A. Yes.