

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)

Docket No. 14-0496

)
Application pursuant to Section 7-204 of the Public)
Utilities Act for authority to engage in a)
Reorganization, to enter into agreements 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.)

DIRECT TESTIMONY OF CHRISTOPHER WHEAT

ON BEHALF OF THE CITY OF CHICAGO AND THE CITIZENS UTILITY BOARD

CITY/CUB EXHIBIT 1.0

NOVEMBER 20, 2014

1 **I. QUALIFICATIONS AND SUMMARY OF TESTIMONY**

2 **Q. What is your name and title?**

3 A. My name is Christopher Wheat. I am Deputy Director of the Innovation Delivery Team
4 within the City of Chicago (“City”) - Office of Mayor Rahm Emanuel.

5 **Q. What is your education, training, and experience?**

6 A. I have a Bachelor of Arts from Washington University in Saint Louis in Political Science
7 and a Master of Business Administration from the University of Chicago – Booth School
8 of Business in Finance, Economics, and Managerial and Organizational Behavior.
9 Previously I was a Senior Consultant with Roland Berger Strategy Consultants,
10 conducting financial analysis and due diligence for corporations. I also served in the
11 Capital Markets Group of Stephens Incorporated, an investment bank.

12 **Q. What are your duties at the City?**

13 A. My primary duties involve leading internal teams that (1) work to improve the energy
14 efficiency of Chicago’s residential buildings; and (2) works to improve social services
15 and programming for the City’s justice-involved youth. In addition, I have led the
16 analysis of several issues around economic development.

17 **Q. In what ways do your duties involve Peoples Gas Light and Coke Company
18 (“PGL”)?**

19 A. I sit on the Illinois Low Income Energy Assistance Policy Advisory Council on behalf of
20 the Mayor. In addition, I have helped coordinate City energy efficiency activities with
21 PGL’s programming under the Energy Efficiency Portfolio Standard (“EEPS”). In the

22 past I have also participated in the Energy Impact Illinois Steering Committee, of which
23 the City and PGL were members.

24 **Q. On whose behalf are you testifying today?**

25 A. I am testifying on behalf of the City and the Citizens Utility Board (“CUB”) about
26 conditions the Commission should impose, if it determines that the proposed
27 reorganization should be approved. Without these conditions, the Commission should
28 not permit the proposed reorganization.

29 **Q. Have you testified before the Illinois Commerce Commission or any other court or
30 administrative proceeding?**

31 A. No.

32 **Q. What conclusions do you reach in your testimony?**

33 A. I conclude that

- 34 • As a condition of any approval of the proposed reorganization, in order to protect
35 the interests of PGL’s ratepayers, Joint Applicants (“JA”) Integrys Energy Group
36 (“Integrys”) and Wisconsin Energy (“WE”) should be required to:
- 37 ○ maintain the same proportion of Illinois members of the Board of
38 Directors for the acquiring entity WEC Energy Group (“WEC”) as
39 currently exists on Integrys’ board for at least five years.
 - 40 ○ retain, at a minimum, the same number and position composition of full
41 time employee equivalent (“FTE”) in Illinois and Chicago as Integrys

- 42 would have without reorganization , including the same number and
43 position composition of union-workers.
- 44 ○ maintain or improve the quality of PGL’s local workforce by opening a
45 local consolidated training facility in the City.
 - 46 ○ assure continued efforts to improve the quality of PGL’s local workforce
47 by extending its partnering arrangements with the City Colleges and the
48 Utility Workers Union of America (“UWUA”), AFL-CIO Local 18007, to
49 implement the gas worker training program for at least five after the
50 reorganization.
 - 51 ○ inject \$5 million of shareholder funds into PGL’s Share the Warmth
52 program, as a tangible measure of the promised continuation of PGL’s
53 commitment to and involvement in the Chicago community.

54 Some of these proposed conditions are similar to commitments the Joint Applicants have
55 offered as inducements for support of reorganization approval. However, it is essential
56 that the Commission’s requirements and conditions provide value to ratepayers beyond
57 what would be provided by the status quo. Otherwise, the interests of ratepayers would
58 not be protected against the likely effects of removing ownership and management to
59 another state. Accordingly, some precision will be required in the Commission’s order,
60 so that such justifying benefits to ratepayers are certain and enforceable

61 I would also like to note that, pursuant to the Administrative Law Judge’s direction on
62 October 9, 2014, City/CUB intend to submit testimony regarding finance-related issues
63 with respect to the proposed reorganization on November 26th. Although that testimony

64 is still being finalized, my understanding is that it will include and support the following
65 conclusions, among others:

66 1) The proposed rate freeze offered by the Joint Applicants is insufficient to
67 protect PGL and NS ratepayers. The rate freeze should be extended from
68 two years to three to five years.

69 2) PGL and NS revenue recovery is more stable due to Rider QIP. This
70 revenue stability has improved Integrys' market value.

71 3) PGL and NS revenue recovery is more stable than it was for Nicor Gas
72 Company when it was acquired by AGL Resources Incorporated.

73 4) Acquisition debt is material and impacts WE's credit outlook. The
74 primary source of cash flow available to WE to service the acquisition
75 debt is dividends from utility subsidiaries. This could impact WE's
76 subsidiary utilities' ability to fund needed infrastructure capital
77 improvements.

78 5) The apparent Golden Parachutes and all other merger costs must not be
79 recovered from ratepayers.

80 **II. RETAINING JOBS IN CHICAGO AND ILLINOIS**

81 **Q. What are some of the immediate impacts of WE's proposed reorganization on jobs**
82 **in Integrys' service territory?**

83 A. Among other impacts, the removal of Integrys' existing headquarters from Chicago will
84 have an impact on, at least, several high-level management and executive positions.

85 Despite the JA's proposed commitment regarding employment levels, the extent and
86 impact of the potential employment and position changes cannot be determined because
87 the JA have not been able to provide a precise number of jobs or associated salaries or
88 severances for these employees. City/CUB Ex. 1.1 (JA DRR to AG 2.11). The JA do
89 confirm that the current mix of executive positions will not be maintained precisely
90 because the headquarters will be relocated to outside Illinois. City/CUB Ex. 1.1 (JA
91 DRR to AG 2.09).

92 **Q. What are some of the indirect impacts of the JA's proposed reorganization on**
93 **PGL's continued operations?**

94 A. The JA's proposal includes a WE commitment to continue day-to-day operations as they
95 take place today. But given Integrys' Board of Directors' role in its large capital projects,
96 including the Accelerated Main Replacement Program ("AMRP"), the composition of the
97 JA's post-reorganization board, and the effects of a reorganized PGL's more attenuated
98 ties to local Chicago issues are crucial to ensuring that the interests of PGL and NS
99 ratepayers are properly represented. In using its authority to protect PGL's ratepayers,
100 the Commission should require that JA commit to maintain the same proportion of
101 Illinois members of JA's board as currently exists on Integrys' board for at least five
102 years after closing of any reorganization approved by the Commission.

103 **Q. What commitments have the JA proposed with respect to jobs in Illinois?**

104 A. The JA have proposed to retain 1,953 FTEs in Illinois for two years from closing. This
105 number of positions, however, does not appear to be based on any particular study of the
106 number of employees necessary to continue adequate and reliable operations in Illinois.

107 City/CUB Ex. 1.1 (JA DRR to AG 5.01). There is a worrisome concern that as PGL's
108 AMRP project continues to ramp up, the JA's Illinois employment commitment number -
109 - and not the resources actually needed to provide safe and adequate service in Illinois --
110 may become the employment level objective.

111

112 **Q. Does the FTE commitment allow for substitution of full time positions for part time**
113 **positions or jobs with benefits for jobs without benefits?**

114 A. It is not apparent from the text of the commitment in the JA's testimony. Through data
115 request responses, the JA have indicated that they "do not intend that their commitment
116 in terms of FTE employee positions would permit substitution of part time positions for
117 full time positions." City/CUB Ex. 1.1 (JA DRR to City 2.10). The JA have also
118 indicated that they "do not intend that that their commitment in terms of FTE employee
119 positions would permit substitution of (1) employees or positions with reduced or no
120 employee benefits for (2) current employees or positions that have such benefits."

121 City/CUB Ex. 1.1 (JA DRR to City 2.10). The Commission should require the full time
122 and benefits "intentions" to be part of any FTE commitment.

123

124 **Q. How does the FTE commitment break down in terms of subsidiary companies of**
125 **Integrys?**

126 A. The JA are clear that the 1,953 FTE commitment applies to the aggregate of Illinois
127 positions, not to any particular number of positions in any specific Integrys subsidiary.
128 However, if the aggregate commitment is assumed to be in the same proportion of jobs as

129 they exist today, which is a reasonable assumption given WE's commitment to continue
130 operations as they exist, then the resulting number of positions that the JA commitment
131 suggests in each Integrys subsidiary are:

132 Peoples Gas - 1,294 FTEs

133 North Shore - 166 FTEs

134 Integrys Business Support ("IBS") - 493 FTEs. City/CUB Ex. 1.1 (JA DRR to
135 Staff ENG 1.23).

136

137 **Q. How does this FTE breakdown compare to the number of FTEs PGL and NS**
138 **believe they would employ in 2015 if the reorganization did not occur?**

139 A. Their reorganization numbers are short five to seven percent, or 98 to 137 jobs, below the
140 expected levels of employment absent the reorganization. This comparison uses PGL's
141 forecasted FTE positions for 2015 as a lower bound ($1,356/1,293 = 1.05$), and NS's
142 forecasted FTE positions for 2015 as a higher bound ($178/166 = 1.07$). City/CUB Ex. 1.1
143 (JA DRR to Staff ENG 1.14, 1.20).

144

145 **Q. If the jobs commitment is to be meaningful for PGL consumers and the City, what**
146 **should the JA commit to with respect to retaining jobs in Illinois and Chicago?**

147 A. Overall, if the reorganization does not improve the ability of PGL to perform its utility
148 functions and improve service to ratepayers, there is no reason for the Commission to
149 approve the proposed reorganization. As to any particular aspect of an approved
150 reorganization's effects, the lack of quantification and specifics in the JA's presentation
151 make it difficult to conclude that an overall gain could be realized unless (as to each

152 aspect) the reorganization would not leave Illinois any worse off than it would in the
153 absence of the proposed reorganization.

154
155 Given that the JA avow no present plan to eliminate or reduce FTE positions as part of
156 the reorganization, the JA should commit to retain, at a minimum, between 2,051 and
157 2,090 FTEs in Illinois for the next five years or for the entire period of the rate freeze,
158 whichever is longer. This commitment would retain between 98 and 137 more jobs in
159 Illinois than the JA proposed in their filing. Assuming the same proportions of FTEs
160 within the Integrys subsidiaries that PGL and NS project for 2015, the recommended
161 employment commitment would mean between 1,356 and 1,385 FTEs for PGL, 174 and
162 178 FTEs for NS, and 518 and 528 FTEs for IBS. Assuming that all PGL and IBS jobs
163 are located in Chicago, the recommended commitment would retain between 1,874 and
164 1,913 FTEs in Chicago. That commitment would retain between 89 and 128 more jobs in
165 Chicago than the commitment the JA proposed in their filing.

166

167 **III. TRAINING THE NEXT GENERATION OF UTILITY WORKERS IN CHICAGO**

168 **Q. What training facilities for existing employees does Integrys have that are located in**
169 **Chicago?**

170 A. Approximately 2,000 PGL and NS workers are trained through the companies' Technical
171 Training and Standards Department in Chicago each year. This training includes new
172 hire training for utility gas workers, operator qualifications, regulatory compliance, and
173 emergency response training. City/CUB Ex. 1.1 (JA DRR to City 5.01). Maintaining
174 this existing capability for training of the local workforce, and leveraging Chicago's

175 talented workforce, and the physical assets already within the City, the JA should use this
176 training infrastructure to commit to establish and operate a comprehensive, consolidated
177 training facility in Chicago.

178 **Q. In addition to training existing workers, what training opportunities does PGL**
179 **provide for future workers in Chicago?**

180 A. PGL partners with the City Colleges of Chicago and UWUA Local 18007 to offer the
181 Gas Utility Workers Training Program. In this program, PGL works with the Power 4
182 America Training Trust Fund, in cooperation with UWUA Local 18007, to fund technical
183 training for future workers at the Kennedy-King College's Dawson Technical Institute.
184 City/CUB Ex. 1.1 (JA DRR to City 5.01). This partnership provides a seven month
185 training course for returning veterans of our Armed Forces who have sacrificed so much
186 for our nation. Over the last three years, with seven cohort groups completed, the
187 certificate completion rate for the program is 87% (144 of 166 completed). *Id.* Under
188 this program, 83% (119 of 144) of students who have completed the certification program
189 have been hired as Utility Worker interns of Peoples Gas. After a one month evaluation
190 period, PGL has hired 74% (107 of 144) of the interns that have applied for a position.
191 The program features training in specific competencies in the construction and operation
192 of natural gas distribution systems. The program includes basic and advanced skill sets
193 designed to enhance on-the-job performance and to quickly bring the student to the level
194 of a full-functioning, skilled worker once employed. *Id.*

195 **Q. What does the comprehensive training you described require with respect to the**
196 **Dawson Technical Institute training program?**

197 A. In their filing, the JA proposed a commitment to continue the Dawson training program
198 for two years after closing. The current and anticipated future needs of PGL's large gas
199 distribution infrastructure projects in Chicago (AMRP in particular) will continue for at
200 least another two decades. Given the need for a well-trained local workforce, the
201 presence of a uniquely suited training program, and a talented workforce in the area, the
202 JA should continue the Dawson veterans training program for at least five years after the
203 closing of any approved reorganization.

204

205 **Q. You mentioned the UWUA as a partner in current training programs. To what**
206 **extent does the UWUA represent PGL's workforce?**

207 A. As of this filing, 949 PGL employees were represented by Gas Workers Union Local
208 18007 Utility Workers Union of America. City/CUB Ex. 1.1 (JA DRR to AG 7.03).
209 PGL forecasts gross attrition of around 40 to 60 Local 18007 members each year for the
210 next four years. City/CUB Ex. 1.1 (JA DRR to AG 7.01). Depending on the breakdown
211 of specific jobs, those numbers may suggest an aging work force that will have to be
212 replenished to complete PGL's main replacement and other projects. Assuming that
213 PGL's current FTE count is close to the number of FTEs PGL forecasts to employ in
214 2015, the UWUA represents approximately 70% (949/1,359) of PGL's workforce.

215 **Q. What commitments should be required with respect to UWUA members employed**
216 **by PGL?**

217 A. Since union representation is a useful measure of the specific types of jobs being
218 maintained in Illinois and Chicago, any approved reorganization should, at a minimum,

219 leave UWUA members (and the skilled workforce required for reliable service) no worse
220 off than they would have been absent the reorganization. Assuming that the proposed JA
221 commitment to not change any day-to-day operations is sincere, the proportion of PGL's
222 workforce represented by UWUA should continue as it exists today. This means that the
223 number of new UWUA members employed by PGL should be equal to or greater than
224 the number of members lost due to attrition the prior year. This commitment would mean
225 at least 40 to 60 new UWUA members each year.

226 **Q. If the reorganization is approved with Illinois jobs/employment conditions, how can**
227 **the Commission assure compliance with employment level and profile**
228 **requirements?**

229 A. The Commission should begin by requiring a complete employee census, with a profile
230 of the positions comprising the employment level. Frequent, regular public reports of the
231 same information would allow the Commission and other stakeholders to monitor
232 compliance. The consequences for violation of any particular condition of reorganization
233 approval should be clearly specified in advance and made a part of any approval order.
234 Less clarity and certainty could compromise perceived benefits for ratepayers, and
235 possibly the Commission's enforcement options.

236 **IV. ASSISTING THE MOST VULNERABLE PGL RATEPAYERS IN CHICAGO**

237 **Q. Why are PGL's most vulnerable utility service consumers a topic for this**
238 **reorganization proceeding?**

239 A. PGL issues bills to customers that many have trouble paying. Any impact of an approved
240 reorganization on the level or design of rates could disparately affect consumers' access

241 to utility service, as well as the ability of many City residents to pay for utility service.
242 The JA expressed their intention that PGL's involvement in the community continue.
243 Support programs for City residents for whom the affordability of utility service is
244 problematic has been an important facet of that involvement. However, removing the
245 highest management of PGL from the City may well affect the discretionary decisions
246 that enable assistance initiatives for low-income residents, since the City's problems will
247 be less visible and more remote to decision makers. Similarly, rate proposals that are
248 designed in places more remote from Chicago are likely to be less sensitive to the
249 specific needs of the City and its residents.

250 **Q. How does poverty in Illinois and in Chicago affect residents' ability to pay the bills**
251 **they receive from PGL?**

252 A. The incidence and depth of poverty in Chicago (and the effects on the affordability of
253 utility service) should not be underestimated. Some 270,000 of the City's residents earn
254 less than 50% of the Federal Poverty Level. Greater than 20% of the City's residents, or
255 more than 544,000 residents, live at or below the Federal Poverty Level. This means that
256 the residents of almost 228,000 households in Chicago live in poverty. Nearly half of all
257 Chicagoans live below 200% of the Federal Poverty Level. Residents living at these
258 levels of income are forced to make difficult, if not impossible, choices on which of their
259 bills to pay. In 2009, 924,152 households were income-eligible for the Low Income
260 Home Energy Assistance Program ("LIHEAP"), which was able to serve only 332,756 of
261 such households in 2013.

262 **Q. How do PGL's delivery service rates and rate structure impact low-income**
263 **ratepayers in Chicago?**

264 A. Over the last seven years, the revenues that PGL collects from its ratepayers for delivery
265 service have increased by approximately \$250 million, an increase of approximately
266 63%. Residential delivery service rates include both fixed and volumetric cost
267 components, but are not based on the individual ratepayer's ability to pay.

268 However, even for those low-income ratepayers who attempt to reduce their usage in
269 order to reduce their bills, PGL's rate design hardly rewards their thrift. In 2007, the
270 fixed customer charge assessed to most of PGL's residential customers was \$9.00. After
271 four rate cases over the last seven years, that charge now stands at \$26.91 – 200% of the
272 2007 charge and the highest such charge in Illinois. A ratepayer must pay at least this
273 amount each month before using even one therm of natural gas.

274 In the current PGL rate case before the Commission, it is my understanding that PGL
275 proposes to raise its fixed charges further. I am also aware that various consumer
276 representatives contend that the Commission has recently reversed its policy on increased
277 fixed monthly customer charges. Since it appears that recent proposals by potential PGL
278 affiliates (under the proposed reorganization) move in the opposite direction from the
279 Illinois Commission's recent policy stance, PGL's response to policy direction from the
280 Illinois Commission may be affected by corporate policies formed in (and supporting
281 proposals in) other jurisdictions. The painful impact of rate policies was described earlier
282 in this testimony.

283 **Q. How much assistance do existing programs provide to PGL ratepayers?**

284 A. In 2013, 78,372 PGL accounts (of the 228,000 Chicago households in poverty) received
285 basic LIHEAP cash assistance. Nevertheless, during that year, almost 36,664 PGL
286 accounts were disconnected for non-payment. Between 2012 and 2013, the average
287 dollar value of LIHEAP basic cash grants increased by just 1%, while at the same time,
288 delivery service rates for PGL ratepayers increased almost 10%. Over that same time
289 period, the budget for PGL's Share the Warmth program decreased by 53%.

290 All of these figures indicate to me that there are many vulnerable Chicago residents who
291 are unable to receive even the most basic federal assistance in paying their natural gas
292 bills. Of those who do receive assistance, the amount of assistance has not kept pace with
293 the increasing bills that must be paid. In addition, non-federal resources have diminished
294 over the same time period. In particular, the resources PGL has devoted to assistance to
295 low-income members of its Chicago community also have declined, even in the face of
296 increased need. Responses to this increased need that are crafted in a location remote
297 from the affected communities -- and the effect on residents in need -- is a concern.

298 **Q. Can you point to local responses that assist low-income members of the community**
299 **that could be affected by reorganization approval?**

300 Under PGL's Share the Warmth program, qualifying ratepayers make a payment toward
301 their bill and receive a matching grant of up to \$200, which can be used to reconnect
302 service that has been disconnected, avoid disconnection in the first place, and maintain
303 existing natural gas service. Earlier this year, two local stakeholders looked at the
304 problems in some Chicago communities and responded through this initiative. PGL and

305 the City partnered to inject \$1 million into the Share the Warmth program to provide bill
306 payment assistance to 5,000 families and seniors.

307 **Q. What can be done in the context of a reorganization approval to address the gap**
308 **between the needs of Chicago’s vulnerable residents and the assistance programs**
309 **currently available?**

310 A. Regardless of the Commission’s decision on monthly charge levels in PGL’s pending rate
311 proceeding, the Commission should cap the level of PGL’s fixed customer charge for the
312 period of any rate freeze, if the Commission orders one as the JA have proposed in
313 proceeding. As an ICC report to the General Assembly noted, an increase in the
314 volumetric (not fixed) portion of consumers’ natural gas delivery bills can lead to a
315 reduction in gas usage, a readily available means for low-income consumers to lower
316 their bills without upfront investments that also may be unaffordable. ICC Report to the
317 General Assembly Concerning Coordination Between Gas and Electric Utility Energy
318 Efficiency Programs and Spending Limits for Gas Utility Energy Efficiency Programs at
319 24 (Aug. 30, 2013).

320 In Chicago, natural gas is relied on to provide necessary warmth during our unpredictable
321 and harsh winters. In order to protect the interests of those customers unable to reduce
322 their bills to affordable levels, and to assist those who have been frugal, but for whom
323 PGL’s rate design still imposes the highest fixed customer charge in Illinois, the JA’s
324 shareholders should inject \$5 million into PGL’s Share the Warmth program over the
325 next five years to assist low-income families and seniors. This injection of funds would
326 assist approximately 25,000 additional Chicago families and seniors.

327 **Q. Does this complete your direct testimony?**

328 A. Yes.