

**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)	Docket No. 14-0496
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.)	

**SUPPLEMENTAL TESTIMONY OF
SEBASTIAN COPPOLA
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS**

AG Exhibit 5.0

January 22, 2015

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Sebastian Coppola. My business address is 5928 Southgate Rd., Rochester,
4 Michigan 48306.

5 **Q. ARE YOU THE SAME SEBASTIAN COPPOLA WHO SUBMITTED DIRECT**
6 **TESTIMONY ON NOVEMBER 20, 2014 AND REBUTTAL TESTIMONY ON**
7 **JANUARY 15, 2015 IN THIS DOCKET?**

8 A. Yes.

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

10 A. On January 14, 2015, the Administrative Law Judge (“ALJ”) issued a ruling that invited
11 parties to file supplemental testimony responding to the “Interim Report – An Investigation
12 of Peoples Gas Light and Coke Company’s AMRP” prepared by The Liberty Consulting
13 Group (“Liberty”), which was attached to Illinois Commerce Commission (“ICC”) Staff
14 witness Harold Stoller’s Rebuttal Testimony, ICC Staff Ex. 8.0, filed on January 15, 2015.
15 The ruling stated that “the scope of testimony, discovery and examination regarding the
16 Liberty Interim Audit Report will be limited to: (1) whether the Joint Applicants¹ are aware
17 of the scope and scale of the potential obligations under AMRP; and (2) whether Joint

¹ The Joint Applicants, or “JAs”, are comprised of 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”), ATC Management Inc., and American Transmission Company LLC.

18 Applicants are ready, willing and able to implement the AMRP consistent with additional
19 remedies as recommended by the Liberty audit.” The ruling also stated:

20 Also as proposed by Staff all parties will be allowed to
21 respond specifically, and exclusively, to Liberty’s Interim
22 Audit Report in testimony by January 22, 2015. All parties
23 may file testimony in rebuttal to such responsive testimony
24 by January 29, 2015.²

25
26 I will present testimony addressing the Interim Audit Report, consistent with the ALJ’s
27 ruling.

28 **Q. IS YOUR REBUTTAL TESTIMONY ACCOMPANIED BY ADDITIONAL**
29 **EXHIBITS?**

30 A. Yes. I am sponsoring AG Exhibit 5.1.

31 **SUPPLEMENTAL TESTIMONY**

32 **Q. AS A POINT OF BACKGROUND, WHAT DO THE LIBERTY AUDITORS**
33 **IDENTIFY AS THE PURPOSE OF THEIR AUDIT?**

34 A. The auditors state that [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

² ALJ Notice of Ruling, January 14, 2015.

█ [REDACTED]

█ [REDACTED]³

42 **Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE LIBERTY INTERIM**
43 **REPORT RELATIVE TO THE JOINT APPLICANTS' OBLIGATIONS UNDER**
44 **THE AMRP AND THEIR READINESS, WILLINGNESS AND ABILITY TO**
45 **IMPLEMENT THE AMRP, CONSISTENT WITH THE RECOMMENDATIONS**
46 **CONTAINED IN THE REPORT?**

47 A. Generally, [REDACTED] I have presented in
48 my Direct and Rebuttal Testimony in this docket related to Peoples Gas's mismanagement
49 of the AMRP program to date, [REDACTED]

█ [REDACTED] – all of which raise the
51 question of whether the Joint Applicants, as the new, responsible corporate entity,
52 understand the enormity of the task of correcting the many problems with the AMRP that
53 Liberty (and others) have identified. As discussed below, in their Rebuttal Testimony filed
54 on December 18, 2014, the Joint Applicants rejected many of the same recommendations
55 and conditions to the approval of the proposed Reorganization that were listed in my
56 Direct Testimony, the Direct Testimony City of Chicago witness William Cheaks, Jr. that
57 are now included in the Liberty Interim Report. The JAs' response provided to date to
58 recommendations for program improvement raise doubts that the Joint Applicants' are
59 ready, willing, and able to fully embrace the recommendations presented in the report and,

³ Staff Ex.8.0, Attachment A at 1.

█ [REDACTED]

█ [REDACTED] Their lack of proper due
176 diligence on the AMRP, previously discussed at page 30 of my Direct Testimony and
177 page 16 of my Rebuttal Testimony, [REDACTED]

178 [REDACTED] my Direct
179 Testimony.²⁹ However, Joint Applicants' witness David Giesler in his Rebuttal
180 Testimony chose not to address those concerns and dismissed them as minor claims and
181 characterizations.³⁰ The reluctance of the Joint Applicants to openly acknowledge
182 problems with the AMRP and embrace (or even consider) recommendations for
183 enhancements to the program raises questions about their awareness of the depth of the
184 problems with the AMRP and their willingness or ability to quickly implement necessary
185 fixes to avoid negative impacts to service quality, reliability, system safety and customer
186 rates.

²⁹ AG Ex. 2.0 at 13.

³⁰ JA Ex. 10.0 at 2.

187 **Q. ARE YOU CONFIDENT THAT THE JOINT APPLICANTS ARE “READY,**
188 **WILLING AND ABLE” TO IMPLEMENT THE RECOMMENDATIONS**
189 **CONTAINED IN THE INTERIM REPORT?**

190 **A.** No, I am not. On the one hand, from reading the Liberty Report, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] improvements I recommended in my
200 Direct and Rebuttal testimony. However, the rejection of my recommendations by
201 Messrs. Schott and Giesler in their Rebuttal Testimony shows [REDACTED]
[REDACTED]
[REDACTED] the Joint Applicants’ effort in this case to downplay the problems with,
204 and the need to improve, the AMRP. This [REDACTED] raises questions and doubt about
205 the Joint Applicants’ willingness to implement the [REDACTED] improvements to the
206 AMRP [REDACTED]. In addition, it suggests that quality of service,

³¹ Staff Ex.8.0, Attachment A (“Interim Audit Report”) at18.

³² *Id.* at 23.

³³ *Id.*

³⁴ *Id.*

231 [REDACTED] those that I proposed in my Direct and
232 Rebuttal Testimony. *See* AG Ex. 2.0 at 34 and AG Ex. 4.0 at 8, 10, 20, 27 and 32. Yet, in
233 their Rebuttal Testimony, the Joint Applicants rejected those recommendations as
234 redundant or unnecessary. In his Rebuttal Testimony, for example, Mr. Schott rejected
235 my recommendations to expand AMRP reporting and improve overall project
236 management – [REDACTED]
[REDACTED] [REDACTED]. My recommendations, [REDACTED], were directed at
238 increasing accountability of results achieved versus the planned main replacement
239 priorities and assessing projected costs and expected benefits.

240 Similarly, JA witness Giesler rejected my recommendation “... to perform a thorough
241 evaluation of the AMRP and scale the program to a level of cast iron/ductile iron
242 replacement and related infrastructure upgrades that is manageable, targets high-priority,
243 high-risk segments first, cost-effective, and minimizes the impact on customer rates”,⁴³
244 which is [REDACTED]. Given these
245 facts and the Joint Applicants’ apparent hesitancy to make needed improvements in the
246 AMRP, there is no doubt in my mind that the proposed reorganization *would*, in fact,
247 “diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost
248 public utility service” and “likely to result in ... adverse rate impacts on retail customers.”
249 As such, unless and until the Joint Applicants (1) agree to implement the Liberty auditor
250 recommendations; (2) show that they are “able” to enact those recommendations by
251 submitting plans detailing the implementation strategies; and (3) accept the conditions I

⁴³ AG Ex. 2.0 at 34.

252 propose in my Direct and Rebuttal Testimony, the Commission should reject the proposed
253 reorganization.

254 Moreover, the highly-contingent commitment at page 15 of Mr. Leverett's Rebuttal
255 Testimony about the Joint Applicants' willingness to implement the recommendations
256 from the Liberty audit raises further doubt about their readiness and ability to significantly
257 improve the AMRP post-merger. The lack of urgency expressed by the Joint Applicants
258 in implementing the needed changes [REDACTED]

[REDACTED]

260 For example, in his Rebuttal Testimony, Mr. Leverett states that Peoples Gas would
261 provide written reports semi-annually beginning in 2018 about the implementation of the
262 Liberty recommendations.⁴⁴ This commitment to begin reporting on the implementation
263 of those recommendations is woefully inadequate. The Joint Applicants need to begin
264 reporting on the implementation of fixes to the AMRP in 2015, as I described in my
265 Rebuttal Testimony.

266 **Q. WHY DO YOU BELIEVE THAT THE PROVISION OF SEMI-ANNUAL**
267 **WRITTEN REPORTS BEGINNING IN 2018 AFTER IMPLEMENTATION OF**
268 **THE FINAL LIBERTY AUDIT RECOMMENDATIONS MEANS THE JOINT**
269 **APPLICANTS ARE NOT "READY, WILLING AND ABLE" TO IMPLEMENT**
270 **THE LIBERTY AUDIT RECOMMENDATIONS?**

⁴⁴ JA Ex. 6.0 at 17:457-463.

271 A. The Liberty Interim Report makes it abundantly clear that [REDACTED]
[REDACTED] Indeed, the auditors [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Unfortunately, the lack of any
277 proactive outline for AMRP changes in the Joint Applicants' testimony filed to date gives
278 me no confidence that they are "ready, willing and able" to implement the Liberty
279 recommendations and begin fixing the AMRP problems in [REDACTED]
[REDACTED] Mr. Cheaks, and I make clear is required.

281 **Q. ARE THERE OTHER INDICATIONS THAT THE JOINT APPLICANTS ARE**
282 **NOT "READY, WILLING AND ABLE" TO IMPLEMENT THE**
283 **RECOMMENDATIONS FROM THE LIBERTY AMRP REVIEW?**

284 A. Yes. In response to two data requests, the Joint Applicants made it abundantly clear that
285 they do not see a commitment to implement the Liberty recommendations and other
286 improvements to the AMRP as central to the Commission's approval of the
287 reorganization. The following answer to data request JA City 10.17 is illustrative:

288 Q. Please refer to the Rebuttal Testimony of Mr. Allen Leverett, JA Ex. 6.0, at
289 lines 513-518: Is it the JA's position that the protection of the interests of the
290 utilities and their customers in a reorganization cannot require improvement of
291 deficiencies the Commission finds in a utility's existing operations?

⁴⁵ Staff Ex.8.0 Attachment A ("Interim Audit Report") at 1 and 2.

⁴⁶ *Id.* at S-1.

⁴⁷ *Id.*

292 A. As a factual matter, the Joint Applicants state that “protection of the interests”
293 of utilities and their customers means preventing harm, diminishment or other
294 adverse effects from occurring to those interests, and in this context, “protection”
295 thus does not mean requiring that the position of those parties be improved. In
296 this context, therefore, “improvement of deficiencies” would be above and
297 beyond what is required for the protection of interests.

298 A subsequent response to data request JA City 10.55 reinforces this position. Both of
299 these data request responses are attached as AG Exhibit 5.1.

300 In other words, what these responses convey is that as long as the Joint Applicants
301 continue to manage the AMRP in the same substandard manner it has been managed to
302 date, the merger should be approved. The Joint Applicants assert that they have no
303 obligation to commit to improve Peoples Gas’s most significant infrastructure program,
304 the multi-billion-dollar AMRP, as a pre-condition to obtain approval for the
305 reorganization under Section 7-204 of the Public Utilities Act.

306 Moreover, [REDACTED]

[REDACTED]

[REDACTED] It can be argued that the proposed merger and the resulting

309 uncertainty [REDACTED]

[REDACTED]

311 **Q. DOES THE LIBERTY INTERIM REPORT CAST DOUBT THAT THE JOINT**
312 **APPLICANTS ARE READY AND ABLE TO IMPLEMENT THE AMRP**
313 **CONSISTENT WITH THEIR COMMITMENT TO COMPLETE THE**

⁴⁸ *Id.* at 2, 10.

[REDACTED]

341

342

CONCLUSIONS AND RECOMMENDATION

343

Q. WHAT ARE YOUR CONCLUSIONS AS TO WHETHER OR NOT THE JOINT

344

APPLICANTS ARE READY, WILLING AND ABLE TO IMPLEMENT THE

345

AMRP CONSISTENT WITH THE ADDITIONAL REMEDIES RECOMMENDED

346

BY THE LIBERTY AUDIT?

347

A. The testimony filed to date by JA witnesses gives me no confidence that the Joint

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Applicants have a full understanding of the magnitude of the problems that exist in the

349

AMRP. Their reluctance to more readily and openly accept (or even consider)

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recommendations and conditions directed at improving the AMRP to the approval of

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proposed reorganization suggests that they are not ready, willing and able to implement

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the AMRP consistent with the Liberty audit recommendations. Therefore, unless and until

353

the Joint Applicants (1) agree to implement the Liberty auditor recommendations; (2)

⁵¹ ALJ Notice of Ruling, January 14, 2015.

354 show that they are “able” to enact those recommendations by submitting plans detailing
355 the implementation strategies; and (3) accept the conditions I propose in my Direct and
356 Rebuttal Testimony, the Commission should reject the proposed reorganization.

357 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

358 A. Yes. However, I reserve the right to amend, revise and supplement my testimony to
359 incorporate new information that may subsequently become available.