

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.)

TESTIMONY OF WILLIAM CHEAKS JUNIOR

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

**RESPONDING TO TESTIMONY REGARDING THE LIBERTY INTERIM AUDIT
REPORT**

CITY/CUB EXHIBIT 10.0 - PUBLIC

JANUARY 29, 2015

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

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

3 A. My name is William Cheaks Junior. I provided pre-field testimony in this proceeding in
4 City/CUB Exhibits 3.0, 7.0, and 9.0 filed with the Illinois Commerce Commission
5 (“ICC” or “Commission”) on November 20, 2014; January 15, 2015; and January 22,
6 2015. This testimony responds to the supplemental testimony of Wisconsin Electric
7 Corporation on Staff’s questions concerning the substance of the Liberty Interim Audit
8 Report (“Audit Report”) (attached as City-CUB Ex. 10.1).

9 **Q. What are the main points to which you respond?**

10 Wisconsin Energy Corporation (“WEC”)¹ continues to insist on the same caveats as
11 before (JA 12.0 at 28-32). It is unclear from their supplemental testimony if the JA agree
12 to implement the Interim Audit Report’s recommendations for ** [REDACTED] **. With
13 these caveats and a significant level of uncertainty in place, the Commission cannot be
14 sure that ratepayers will not be negatively affected by the management of AMRP going
15 forward. Especially given the Interim Audit Report’s conclusion that ** [REDACTED]

¹ Surprisingly, the Joint Applicants failed to provide testimony from employees or consultants of Integrys Energy Group, Incorporated (“Integrys”) or Peoples Gas Light and Coke Company (“PGL”) regarding the Liberty Consulting Group’s (“Liberty”) Interim Audit Report (“Audit Report”). Especially given the Audit Report’s focus on particular ** [REDACTED] **, it seems unlikely to me that the Commission can decide whether WEC is “ready, willing, and able” to implement the Audit Report’s recommendations when the record contains no evidence of what ** [REDACTED] **.

16 [REDACTED]** the
17 Commission appears to have clear factual and legal bases for imposing requirements that
18 assure the continued improvement and operation of AMRP, as conditions for the
19 proposed reorganization.

20 **Q. How do you respond to WEC’s statement of intent regarding ** [REDACTED]
21 [REDACTED]**?**

22 **A.** Although Wisconsin Energy states that it “intends to fully support” the ** [REDACTED]
23 [REDACTED]**, the testimony does not specifically address the need
24 for changes in the 2015-2016 ** [REDACTED]**. Any delay in addressing the report’s
25 findings and recommendations would put remediation of the report’s identified problems
26 and completion of the AMRP entirely under the control of PGL’s new owners, if the
27 reorganization is approved. That direct consequence of the reorganization gives the
28 Commission even more reason to impose AMRP requirements as conditions for any
29 approved reorganization.

30 WEC’s stated intention to ** [REDACTED]
31 [REDACTED]** contradicts their previous arguments that PGL’s parent company has no
32 substantial role in AMRP. JA Ex. 6.0 at 498-518, 751-766. A similar contradiction with
33 previous JA positions can be found in WE’s agreement with Liberty for the ** [REDACTED]
34 [REDACTED]
35 [REDACTED]** and the stated need for WEC’s Board to “allow effective oversight of how
36 [AMRP is] being managed and progressing.” – JA Ex. 12.0 at 188-194. In light of the

37 Audit Report’s findings and recommendations, the Joint Applicants’ position that
38 “‘improvement of deficiencies’ would be above and beyond what is required” for the
39 protection of ratepayer interests is especially pertinent. City/CUB Ex. 9.1 (DRR City
40 10.17). WEC’s new concessions and admissions raise questions about the extent to
41 which that prior position has changed, and WEC’s testimony supports my claim that the
42 identity, capability, and willingness of Peoples Gas’ parent company is highly relevant to
43 the Commission’s duty to assure that the continuation of AMRP under a reorganization
44 will not hurt Illinois ratepayers. The new positions expressed by WEC also suggest that
45 the Audit Report was persuasive in showing the direct impacts on ratepayers and the
46 relevance of the AMRP implementation issues in the context of the proposed change in
47 control.

48 **Q. Are WEC’s statements of intention regarding continuation of AMRP supported by**
49 **evidence of changed positions or firm commitments?**

50 **A.** No, there is scant specificity in what WEC may be suggesting are new commitments.
51 And there is little or no detail provided respecting how those stated intentions would be
52 carried out. Although WE states that it will assure ** [REDACTED]
53 [REDACTED]** in AMRP management, the only way for the
54 Commission to ensure that is likely to happen is for a reorganization condition like the
55 dividend ring-fencing condition proposed by Mr. Gorman. (JA Ex. 12.0 at 125-130).
56 This statement of intent, like others WEC makes, is non-specific, unmeasurable, and
57 consequently largely unenforceable. Without plainer and firmer commitments, more

58 details on implementation plans, and tracking/enforcement requirements, there is no
59 assurance that the deficiencies identified in the Audit Report will be addressed post-
60 reorganization. The Commission must establish conditions that are clear and specific,
61 that incorporate metrics to evaluate compliance, and that define enforceable
62 consequences for failure to meet the conditions.

63 **Q. What is your response to the WEC testimony respecting future management of the**
64 **AMRP?**

65 **A.** WEC states that ** [REDACTED]
66 [REDACTED]**, leading to the distinct possibility that these positions will, at least, turn over
67 and, at worst, be replaced with personnel from out-of-state. (JA Ex. 12.0 at 173-180).
68 Again, the lack of a clear commitment provides further support for the City's
69 recommendations regarding employee counts and board of directors composition
70 conditions for any approved reorganization.

71 Similarly, WEC agrees that ** [REDACTED]
72 [REDACTED]** is reasonable, but there is no commitment to do so. This management
73 structure is necessary to ensure that Illinois ratepayer rate and service interests are
74 protected going forward, and it should be an explicit condition of any approved
75 reorganization. (JA 12.0 at 48-51; 211-216).

76 Despite appearing to agree with most of the Audit Report's recommendations, WEC does
77 not commit to implement them with the same specificity and definite language used in its
78 initial, voluntary commitments. WEC's general commitments still need enforcement

79 mechanisms (like the metrics with penalties I have recommended in my testimony), given
80 that WEC does not believe that there should be a ** [REDACTED]
81 [REDACTED]** in order for the Commission to be sure that the
82 interests of Illinois ratepayers will be protected subsequent to any approved
83 reorganization. (JA Ex. 12.0 at 115-124). WEC's current practice is to directly link
84 personal accountability for results with project metrics for large and/or long-term capital
85 projects. JA Ex. 13.0 at 76-80. This is a good start, but without the metrics like those I
86 proposed in my direct testimony, there is little accountability of WEC as an entity, even
87 though the personnel within WEC may be accountable.

88 WEC admits that ** [REDACTED]
89 [REDACTED]** JA Ex.
90 13.0 at 132-134. This provides direct and further support for the dotMaps and schedule
91 provision conditions I recommended in my direct testimony. The dotMaps website is a
92 platform upon which PGL's AMRP and non-AMRP work can be integrated with the
93 schedules for all other large construction projects in the City's Public Ways.

94 ** [REDACTED]
95 [REDACTED]** Interim Audit Report at 21. This
96 supports Mr. Wheat's proposed condition to increase the number of employees that WEC
97 must agree to employ in Illinois as a condition of the proposed reorganization. By failing
98 to adequately staff PGL crews to finish the job, it makes little difference if costs are
99 otherwise minimized or schedules are otherwise coordinated.

100 Q. Does this conclude this piece of your testimony?

101 A. Yes.