

DIRECT TESTIMONY

of

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Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

The Southern Company, AGL Resources Inc., and Northern Illinois Gas Company d/b/a  
Nicor Gas Company

Joint Application for Approval of a Reorganization  
Pursuant to Section 7-204 of the Public Utilities Act

Docket No. 15-0558

February 3, 2016



22 Resources Inc. (“AGL”), and Northern Illinois Gas Company d/b/a Nicor Gas  
23 Company (“Nicor”) (jointly, the “Joint Applicants” or “JA”). Specifically, my  
24 testimony addresses whether the proposed reorganization complies with the  
25 requirements set forth in Section 7-204(c) of the Public Utilities Act (“Act”) and  
26 whether the Commission should approve any proposed accounting entries  
27 associated with the reorganization.

28 **Q. Are you sponsoring any schedules as part of your direct testimony?**

29 A. No.

30 **Section 7-204(c)**

31 **Q. Section 7-204(c) of the Act states as follows:**

32 **The Commission shall not approve a reorganization without ruling on: (i)**  
33 **the allocation of any savings resulting from the proposed reorganization;**  
34 **and (ii) whether the companies should be allowed to recover any costs**  
35 **incurred in accomplishing the proposed reorganization and, if so, the**  
36 **amount of costs eligible for recovery and how the costs will be allocated.**

37  
38 **Have the Joint Applicants provided any commitments that address the**  
39 **requirements of Section 7-204(c) of the Act?**

40 A. Yes. Joint Applicants Ex 1.2 provides a list of commitments that the Joint  
41 Applicants propose to assure the Commission that Nicor Gas’ customers will  
42 not be adversely impacted by the proposed reorganization. Commitments

43 Number 11 and 12 state as follows:

44 11. Achieved savings at Nicor Gas resulting from the proposed  
45 Reorganization, if any, and any additional savings resulting from  
46 the proposed Reorganization that would otherwise be recognized  
47 under 83 Ill. Adm. Code Part 287 or prior Commission test year  
48 rulings, if any, shall be flowed through to Nicor Gas customers as

49 part of costs associated with the regulated intrastate operations  
50 for consideration in any future rate case involving Nicor Gas.

51  
52 12. The costs incurred in accomplishing the proposed  
53 Reorganization shall not be recovered through Illinois  
54 jurisdictional regulated rates in this or any future proceeding. For  
55 clarification, the "costs incurred in accomplishing the proposed  
56 Reorganization" are Transaction Costs, Change in Control Costs,  
57 Financing Costs, Separation Costs, and Legal and Other  
58 Professional Costs, which shall not be recovered through Illinois  
59 jurisdictional rates.

60 (JA Ex. 1.2, 2.) Commitments Number 11 and 12 address the requirements  
61 of Section 7-204(c) of the Act and should be adopted by the Commission.

62 **Q. What are the expected savings from this reorganization?**

63 A. The Joint Applicants have not identified any reorganization savings nor do they  
64 anticipate any. (JA Ex. 1.0, 21.) My recommendation assumes that any  
65 savings that might be recognized at a later date will be attributable solely to  
66 utility operations and, thus, should flow directly to the ratepayers.

67 **Q. How will savings be flowed through to ratepayers?**

68 A. Any savings the Joint Applicants attain from the proposed reorganization will  
69 flow through to the costs associated with the regulated operations for  
70 consideration in setting rates by the Commission.

71 **Q. What costs associated with the reorganization have the Joint Applicants  
72 requested recovery?**

73 A. The Joint Applicants have not requested recovery of reorganization costs.  
74 (Joint Applicants Application, ¶ 27.) In his direct testimony, the Joint  
75 Applicant's witness Mr. Beattie states:

76 Nevertheless, given that (i) any savings allocable to Nicor Gas  
77 resulting from the Reorganization will be passed through to  
78 customers in the normal course of the ratemaking process, and (ii)  
79 we are not seeking recovery of costs incurred in accomplishing the  
80 proposed Reorganization, there is nothing upon which the  
81 Commission must rule with respect to Section 7-204(c), and this  
82 requirement is inapplicable.

83 (JA Ex. 1.0, 22 (emphasis added).) Given that the Joint Applicants are not  
84 requesting cost recovery, I recommend the Commission find that the Joint  
85 Applicants should not be allowed to recover any costs incurred in  
86 accomplishing the proposed reorganization in this or any future proceeding.

87 **Q. How do you respond to Mr. Beattie’s statement that “there is nothing**  
88 **upon which the Commission must rule with respect to Section 7-204(c)”?**  
89 **(JA Ex. 1.0, 22.)**

90 A. Although I am not an attorney, I take issue with Mr. Beattie’s position. Section  
91 7-204(c) clearly requires rulings on both the allocation of savings and the  
92 recovery of costs related to the reorganization. As such, the Commission  
93 should make the findings described in my testimony above. The Joint  
94 Applicants’ current position (that no ruling is needed because there are no  
95 savings and they are not seeking recovery of costs) does not relieve the  
96 burden placed on the Commission by Section 7-204(c).

97 **Q. What are your recommendations to the Commission regarding the**  
98 **allocation of any savings and the recovery and allocation of any costs**  
99 **resulting from the proposed reorganization?**

100 A. If the proposed reorganization is approved by the Commission, I recommend

101 the Commission make the following findings regarding Section 7-204(c):

102 (i) All savings resulting from the proposed reorganization shall flow  
103 through directly to ratepayers; and

104 (ii) the Joint Applicants shall not be allowed to recover any costs incurred  
105 in accomplishing the proposed reorganization in this or any future  
106 proceeding.

107 **Approval of Proposed Accounting Entries**

108 **Q. Do the Joint Applicants anticipate the need for any accounting entries**  
109 **associated with the proposed reorganization to be approved by the**  
110 **Commission?**

111 A. No. At the date of their initial filing, the Joint Applicants stated they do not  
112 anticipate any accounting entries needing to be recorded on the books of Nicor  
113 Gas. (JA Ex. 1.0, 27-28.) In a Data Request (“DR”) response, the Joint  
114 Applicants state as follows:

115 We currently do not anticipate recording any entries related to the  
116 Merger on the books and records of Northern Illinois Gas Company  
117 (Nicor Gas). Generally Accepted Accounting Principles (GAAP)  
118 provide the acquirer an option to use push down accounting for  
119 purposes of the acquiree’s post-acquisition financial statements. We  
120 currently do not anticipate that we will apply push down accounting  
121 to the books and records of Nicor Gas. We will not finalize the  
122 acquisition accounting entries until the Merger has closed, at which  
123 time the accounting will be subject to review by our independent  
124 auditors.

125 (JA DR Response JMO 1.01.) The Joint Applicants have further stated that  
126 upon the close of the proposed reorganization, the acquisition accounting

127 entries will be subject to review by the U.S Securities and Exchange  
128 Commission ("SEC"). (JA Ex. 1.0, 28.)

129 **Q. What are your recommendations regarding the accounting entries**  
130 **associated with the proposed reorganization?**

131 A. I recommend the Joint Applicants notify the Commission after the final  
132 accounting entries have been reviewed by the SEC and independent auditors.

133 I also recommend the language in the Order state:

134 The Joint Applicants shall file on the ICC's e-Docket system in  
135 Docket No. 15-0558 and send a copy of the same to  
136 AccountingMgr@icc.illinois.gov, the final disposition of the  
137 accounting entries. If the SEC or independent auditors determine  
138 any accounting entries are required, the Joint Applicants shall file on  
139 the ICC's e-Docket system in Docket No. 15-0558 and send a copy  
140 of the same to [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov), copies of the  
141 accounting entries to be recorded on the regulatory books of Nicor  
142 Gas, including preliminary amounts to be recorded, within 6 months  
143 after closing the reorganization, and further file the final accounting  
144 entries and amounts no later than 12 months after closing.

145 **Summary of Conclusions and Recommendations**

146 **Q. Please summarize the recommendations contained in your testimony.**

147 A. In the event that the Commission approves the reorganization, I recommend that  
148 the Commission adopt commitment Numbers 11 and 12 from Joint Applicants  
149 Ex. 1.2 and that the Commission make the following findings:

150 1) All savings resulting from the proposed reorganization shall flow through to the  
151 costs associated with the regulated intrastate operations for consideration in  
152 setting rates by the Commission (Section 7-204(c)(i) of the Act);

153 2) Any costs incurred in accomplishing the proposed reorganization in this or any

154 future proceeding shall not be recoverable through Illinois jurisdictional  
155 regulated rates (Section 7-204(c)(ii) of the Act); and

156 3) The Joint Applicants shall file the final disposition of accounting entries on e-  
157 Docket with a copy to [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov) within 6 months after  
158 closing the reorganization, and further file the final entries and amounts no  
159 later than 12 months.

160 **Q. Does this question end your prepared direct testimony?**

161 A. Yes, it does.