

REBUTTAL TESTIMONY

of

SCOTT TOLSDORF

Accountant

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Reconciliation of revenues collected under Rider EDA with the actual costs
associated with energy efficiency and demand response programs.

Commonwealth Edison Company

Docket No. 10-0537

March 22, 2012

1 **Q. Please state your name and business address.**

2 A. My name is Scott Tolsdorf. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4 **Q. Are you the same Scott Tolsdorf who previously provided direct**
5 **testimony in this proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. I am proposing rebuttal testimony regarding my proposed adjustment for
9 Incentive Compensation costs of Commonwealth Edison Company
10 (“Company” or “ComEd”) that I proposed in my direct testimony (ICC Staff
11 Exhibit 1.0). My testimony responds specifically to the rebuttal testimony
12 offered by the Company’s witness Martin G. Fruehe (ComEd Ex. 4.0). I
13 also briefly address Mr. Brandt’s testimony.

14 **Q. Please identify any adjustments from your direct testimony that you**
15 **are withdrawing.**

16 A. Upon further consideration and in the interest of limiting the number of
17 contested issues, I have withdrawn my proposed adjustment per
18 Schedule 1.3 Rider EDA - Revenue Reconciliation. The adjustment
19 utilizes a calculated revenue based on the applicable EDA rate and the
20 number of kilowatt-hours (“kWh”) delivered by customer class. While this
21 approach is a good “reasonableness” test, it requires a level of precision
22 that may not be practical or cost-effective for the Company to achieve.

23 **Schedule and Attachment Identification**

24 **Q. Are you sponsoring any schedules with your testimony?**

25 A. Yes. I prepared the following schedules relating to the Company, which
26 show data as of, or for the Program Year 2 (PY 2) reconciliation period:

27 Schedule 3.1 Rider EDA – Reconciliation

28 Schedule 3.2 Rider EDA – Disallowed Costs

29 **Q. Please explain Staff Exhibit 3.0, Schedule 3.1.**

30 A. Schedule 3.1 presents the reconciliation statements proposed by the
31 Company, Staff's updated adjustments, and the resulting Staff position.
32 Page 1 represents a summary of Rider EDA while pages 2 through 4 are
33 the reconciliation statements for the applicable delivery classes EDA-R
34 (Residential), EDA-NS (Non-Residential-Small Load), and EDA-NL (Non-
35 Residential-Large Load.) The Staff adjustments result in a total \$262,929
36 refund for the three delivery classes as an Ordered Reconciliation
37 Adjustment.

38 **Q. Please explain Staff Exhibit 3.0, Schedule 3.2.**

39 A. Schedule 3.2 presents my adjustment to Rider EDA recoverable costs to
40 disallow all incentive compensation costs recovered through Rider EDA
41 for PY2.

42 **Q. Is this the same adjustment from your direct testimony?**

43 A. Yes.

44 **Q. In your direct testimony, you stated, “ComEd has failed to show how**
45 **its incentive compensation costs relate to energy efficiency (EE) or**
46 **how it’s Annual Incentive Plan (AIP) has been tailored for its EE**
47 **employees as intended by the Commission in the proceeding that**
48 **established the EE Plan (“Plan”) for ComEd.” (ICC Staff Exhibit 1.0,**
49 **p. 3) What was the Company’s response?**

50 A. Company witness Mr. Fruehe stated that:

51 ...in Docket No. 10-0570, which approved ComEd’s second
52 energy efficiency plan and directed that “in ComEd’s next
53 reconciliation filing it should show how its current incentive
54 compensation relates to EE or how it tailored its incentive
55 compensation for these employees.” (ComEd Ex. 4.0, p. 4)

56 Mr. Fruehe goes on to say that because the Final Order in Docket 10-
57 0570 was issued after the Company’s filing in this docket, it is his
58 understanding that the Commission’s directive does not retroactively apply
59 to this Docket.

60 **Q. Do you agree with Mr. Fruehe that ComEd does not need to show**
61 **how the incentive compensation plan relates to EE in this**
62 **proceeding?**

63 A. No, I do not. While I am not an attorney Mr. Fruehe fails to consider that
64 the Commission has a long standing policy of only allowing incentive
65 compensation costs to be recovered when there is evidence that a benefit
66 to customers has occurred. The expectation that ComEd show in this
67 proceeding that the costs of incentive compensation recovered through

68 Rider EDA are related to EE should have come as no surprise to the
69 Company given that the issue was being argued in Docket No. 10-0570.
70 In addition, regardless of which Rider EDA reconciliation filing that the
71 Commission was referring to in its Order in Docket No. 10-0570, it is my
72 understanding that the Commission has consistently required that the
73 costs of incentive compensation be shown to be reasonable and prudent
74 and provide a benefit to ratepayers, as the Commission's Order in Docket
75 No. 10-0570 stated in reference to the costs of incentive compensation
76 recovered through Rider EDA:

77 Naturally, the reasonableness and prudence must also be shown.
78 (Final Order, ICC Docket No. 10-0570, p. 44)

79 This statement is no different than the Commission's conclusion in the
80 Company's most recent rate case:

81 The Commission has a long-standing policy of allowing Incentive
82 Compensation costs when those costs benefit ratepayers... (Final
83 Order, ICC Docket No. 10-0467, p. 65)

84 In the rate case prior to the most recent rate case, the Commission
85 stated:

86 The utility can recover its expenses when it can prove that the
87 expenses are reasonable, related to utility services, and of benefit
88 to ratepayers or utility service. (Final Order, ICC Docket No. 07-
89 0566, p. 61)

90 It is clear to me that the Commission has consistently required that any
91 incentive compensation costs be reasonable and prudent and provide a
92 benefit to customers for these costs to be recoverable. Thus, it is only

93 logical that for the costs of incentive compensation to be recoverable
94 through Rider EDA, there must be a benefit associated with energy
95 efficiency. The Company has not proven that there is any benefit to
96 ratepayers for incentive compensation costs in the context of energy
97 efficiency.

98

99 **Q. Has the Company created an annual incentive compensation plan**
100 **(AIP) for its incremental EE employees?**

101 A. No. The AIP used to calculate awards for the incremental EE employees
102 is the same AIP as used for all ComEd employees.

103 **Q. Has the Company's current AIP been tailored to address EE**
104 **employees?**

105 A. No, not in a substantive way. The Company's AIP uses cost and
106 operational Key Performance Indicators ("KPIs") to measure its relative
107 performance. These KPIs are called Funding KPIs, because they fund
108 the AIP and establish the potential AIP payout available. One of the
109 existing KPIs, the Focused Initiative KPI, was expanded in 2010 to include
110 Environmental and additional Customer Focused Initiatives along with
111 Operations Focused Initiatives. This expansion caused the newly formed
112 Focused Initiatives & Environmental Index to increase from 10% to 15% of
113 the total plan. Within the Focused Initiatives & Environmental Index there
114 are 11 specific work plan objectives one of which deals with energy

115 savings. Mr. Fruehe discusses the Focused Initiatives & Environmental
116 Index KPI in rebuttal testimony and states:

117 The efforts and contributions of the employees, including
118 incremental employees, are critical to ensuring ComEd achieves
119 this operation KPI. (ComEd Ex. 4.0, p. 6)

120 While it may be true that the incremental employees have an impact on
121 the energy savings work plan objective of this KPI, the overall impact to
122 the AIP is de minimis at best.

123 **Q. Has the Company shown how the EE employees incentive
124 compensation provides benefits to customers?**

125 A. No. The Company has not shown how there is any additional benefits to
126 customers because of EE employees incentive compensation. In rebuttal
127 testimony, Mr. Fruehe stated:

128 The incremental employees ComEd has hired to implement its
129 energy efficiency plan (and whose costs are recovered through
130 Rider EDA) provide the benefits identified by the General Assembly
131 in Section 8-103 of the Public Utilities Act: "Requiring investment in
132 cost-effective energy efficiency and demand-response measures
133 will reduce direct and indirect costs to consumers by decreasing
134 environmental impacts and by avoiding or delaying the need for
135 new generation, transmission, and distribution infrastructure." 220
136 ILCS 5/8-103(a). **These savings, as well as the energy savings
137 achieved under subsection (b) of Section 8-103 of the Act, are
138 effected in part by the employees, including the incremental
139 employees, who implement the energy efficiency plan, and
140 who are compensated to do so.** (ComEd Ex. 4.0, p. 5) (emphasis
141 added)

142 The Company's position is that the incremental employees hired to
143 implement the EE programs are an integral part of achieving the goals

144 prescribed within Section 8-103 of the Public Utilities Act (“Act”). There is
145 no disagreement with that position. But as the Company points out,
146 achieving the savings goals is what ComEd’s EE employees are
147 compensated to do. Achieving the goals set forth in Section 8-103 of the
148 Act is statutorily required. In other words, this is the bare minimum of
149 what is acceptable. As the Company points out above, the incremental
150 employees have been hired and are being compensated to achieve those
151 goals. Meeting the goals of a statutory mandate is not an additional
152 benefit which justifies incentive compensation for which the customers
153 must pay. In my opinion there must be an incremental benefit to
154 customers “above and beyond” the bare minimum to justify recovery of
155 any incentive compensation. The incentive compensation costs incurred
156 for the EE employees provide no additional benefits to customers and
157 should be disallowed from recovery.

158 **Q. Did you make any other adjustments in your direct testimony or**
159 **address any other issues?**

160 A. Yes. In my direct testimony I noted an imprudent expense for alcohol
161 which the Company has agreed to remove in order to narrow the issues.
162 (ComEd Ex. 3.0, p. 6)

163 **Q. Please summarize your recommendations.**

164 A. I recommend that the Commission approve the Rider EDA
165 reconciliation for PY 2 as presented on ICC Staff Exhibit 3.0, Schedule

166 3.1. I also recommend that the Commission direct ComEd to refund the
167 Ordered Reconciliation Amount of \$262,929 through the EDA calculation
168 in its first filing following the date of the Order in this docket.

169 **Q. Does this end your prepared rebuttal testimony?**

170 A. Yes.

Commonwealth Edison
 Rider EDA - Reconciliation
 Rider EDA - Summary Reconciliation
 For the Period June 1, 2009 through May 31, 2010 (PY-2)

Line No.	Description (A)	Per Company (B)	Staff Adjustment (C)	Per Staff (B+C) (D)
1	Balance of Automatic Reconciliation Factor at 5/31/09	\$ (3,903,017)	\$ -	\$ (3,903,017)
2	Prior period Ordered Reconciliation Factor	-	-	-
3	Under/(Over) Recovery from Prior Periods (Line 1 + Line 2)	(3,903,017)	-	(3,903,017)
4	PY-2 Recoverable EDA Costs	63,543,474	(262,929)	63,280,545
5	PY-2 EDA Revenue	70,546,051	-	70,546,051
6	Under / (Over) Recovery for PY-2 (Line 4 - Line 5)	(7,002,577)	(262,929)	(7,265,506)
7	EDA Reconciliation Balance at 5/31/10 (Line 3 + Line 6)	(10,905,594)	(262,929)	(11,168,523)
8	Less: Automatic Reconciliation Adjustment at 5/31/10 (Line 1 + Line 6)	(10,905,594)	-	(10,905,594)
9	PY-2 Ordered Reconciliation Adjustment to be Recovered/(Refunded) in Future Filing (Line 7 - Line 8)	\$ -	\$ (262,929)	\$ (262,929)

Sources:

Column (B): ComEd Exhibit 1.0 , Page 1 of 3
 Column (C): ICC Staff Ex. 3.0, Schedule 3.2
 Column (D): Per Staff [Column (B) + Column (C)]

Commonwealth Edison
 Rider EDA - Reconciliation
 Rider EDA-R - Reconciliation
 For the Period June 1, 2009 through May 31, 2010 (PY-2)

Line No.	Description (A)	Per Company (B)	Staff Adjustment (C)	Per Staff (B+C) (D)
1	Balance of Automatic Reconciliation Factor at 5/31/09	\$ (1,728,911)	\$ -	\$ (1,728,911)
2	Prior period Ordered Reconciliation Factor	-	-	-
3	Under/(Over) Recovery from Prior Periods (Line 1 + Line 2)	(1,728,911)	-	(1,728,911)
4	PY-2 Recoverable EDA Costs	26,224,463	(108,327)	26,116,136
5	PY-2 EDA Revenue	23,047,021	-	23,047,021
6	Under / (Over) Recovery for PY-2 (Line 4 - Line 5)	3,177,442	(108,327)	3,069,115
7	EDA Reconciliation Balance at 5/31/10 (Line 3 + Line 6)	1,448,531	(108,327)	1,340,204
8	Less: Automatic Reconciliation Adjustment at 5/31/10 (Line 1 + Line 6)	1,448,531	-	1,448,531
9	PY-2 Ordered Reconciliation Adjustment to be Recovered/(Refunded) in Future Filing (Line 7 - Line 8)	\$ -	\$ (108,327)	\$ (108,327)

Sources:

Column (B): ComEd Exhibit 1.0 , Page 1 of 3
 Column (C): ICC Staff Ex. 3.0, Schedule 3.2
 Column (D): Per Staff [Column (B) + Column (C)]

Commonwealth Edison
 Rider EDA - Reconciliation
 Rider EDA-NS - Reconciliation
 For the Period June 1, 2009 through May 31, 2010 (PY-2)

Line No.	Description (A)	Per Company (B)	Staff Adjustment (C)	Per Staff (B+C) (D)
1	Balance of Automatic Reconciliation Factor at 5/31/09	\$ (1,284,007)	\$ -	\$ (1,284,007)
2	Prior period Ordered Reconciliation Factor	-	-	-
3	Under/(Over) Recovery from Prior Periods (Line 1 + Line 2)	(1,284,007)	-	(1,284,007)
4	PY-2 Recoverable EDA Costs	20,750,340	(85,978)	20,664,362
5	PY-2 EDA Revenue	23,597,326	-	23,597,326
6	Under / (Over) Recovery for PY-2 (Line 4 - Line 5)	(2,846,986)	(85,978)	(2,932,964)
7	EDA Reconciliation Balance at 5/31/10 (Line 3 + Line 6)	(4,130,993)	(85,978)	(4,216,971)
8	Less: Automatic Reconciliation Adjustment at 5/31/10 (Line 1 + Line 6)	(4,130,993)	-	(4,130,993)
9	PY-2 Ordered Reconciliation Adjustment to be Recovered/(Refunded) in Future Filing (Line 7 - Line 8)	\$ -	\$ (85,978)	\$ (85,978)

Sources:

Column (B): ComEd Exhibit 1.0 , Page 1 of 3
 Column (C): ICC Staff Ex. 3.0, Schedule 3.2
 Column (D): Per Staff [Column (B) + Column (C)]

Commonwealth Edison
 Rider EDA - Reconciliation
 Rider EDA-NL - Reconciliation
 For the Period June 1, 2009 through May 31, 2010 (PY-2)

Line No.	Description (A)	Per Company (B)	Staff Adjustment (C)	Per Staff (B+C) (D)
1	Balance of Automatic Reconciliation Factor at 5/31/09	\$ (890,099)	\$ -	\$ (890,099)
2	Prior period Ordered Reconciliation Factor	-	-	-
3	Under/(Over) Recovery from Prior Periods (Line 1 + Line 2)	(890,099)	-	(890,099)
4	PY-2 Recoverable EDA Costs	16,568,671	(68,624)	16,500,047
5	PY-2 EDA Revenue	23,901,704	-	23,901,704
6	Under / (Over) Recovery for PY-2 (Line 4 - Line 5)	(7,333,033)	(68,624)	(7,401,657)
7	EDA Reconciliation Balance at 5/31/10 (Line 3 + Line 6)	(8,223,132)	(68,624)	(8,291,756)
8	Less: Automatic Reconciliation Adjustment at 5/31/10 (Line 1 + Line 6)	(8,223,132)	-	(8,223,132)
9	PY-2 Ordered Reconciliation Adjustment to be Recovered/(Refunded) in Future Filing (Line 7 - Line 8)	\$ -	\$ (68,624)	\$ (68,624)

Sources:

Column (B): ComEd Exhibit 1.0 , Page 1 of 3
 Column (C): ICC Staff Ex. 3.0, Schedule 3.2
 Column (D): Per Staff [Column (B) + Column (C)]

Commonwealth Edison
 Rider EDA - Disallowed Costs
 For the Period June 1, 2009 through May 31, 2010 (PY-2)

Line No.	Description (A)	2009 (B)	2010 (C)	Sources (D)
1	EE Employees Total Incentive Compensation	\$ 229,629	\$ 309,548	ComEd DR Response ST 2.04
2	Months Included in PY2	7	5	Supplemental Response
3	Incentive Compensation Attributable to PY2	<u>\$ 133,950</u>	<u>\$ 128,978</u>	7=June-Dec 2009; 5=Jan-May 2010 (Line 1 x Line 2)/12
4	Total EE Employees Incentive Compensation Attributable to PY2		<u><u>\$ 262,929</u></u>	Line 3, Column (B) + Column (C)
	<u>PY2 Costs Incurred per Company</u>			
5	Residential		\$ 26,224,463	ComEd Ex. 1.0, Page 1
6	Small Commercial and Industrial		20,750,340	ComEd Ex. 1.0, Page 1
7	Large Commercial and Industrial		16,568,671	ComEd Ex. 1.0, Page 1
8	Total		<u>\$ 63,543,474</u>	Sum of Lines 5-7
9	Residential percent of total		41.2%	Line 5 / Line 8
10	Small C&I percent of total		32.7%	Line 6 / Line 8
11	Large C&I percent of total		26.1%	Line 7 / Line 8
12	Disallowance Allocated to EDA-R		\$ 108,327	Line 4 * Line 9
13	Disallowance Allocated to EDA-NS		85,978	Line 4 * Line 10
14	Disallowance Allocated to EDA-NL		68,624	Line 4 * Line 11
15	Total Staff Adjustment		<u><u>\$ 262,929</u></u>	Sum of Lines 12-14