

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

COMMONWEALTH EDISON COMPANY :  
: No. 14-0312  
Annual formula rate update and revenue :  
requirement reconciliation under :  
Section 16-108.5 of the Public Utilities Act :

**COMMONWEALTH EDISON COMPANY**  
**CROSS EXAMINATION EXHIBIT 2**

Response to ComEd's  
Eighth Set of Data Requests to Staff  
Docket No. 14-0312  
Response of Staff Witness Richard W. Bridal II

ICC Person Responsible: Richard W. Bridal II  
Title: Accountant  
Business Address: Illinois Commerce Commission  
527 East Capitol Avenue  
Springfield, IL 62701

ComEd→Staff 8.02

(a) Does Mr. Bridal contend that all or any portion of the 2013 Annual Incentive Compensation expense included in the revenue requirement in this proceeding was imprudently incurred?

(b) If the answer to subpart (a) is anything other than an unqualified "no," please explain the entire rationale for any claim that any portion of the 2013 Annual Incentive Compensation was imprudently incurred and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) As stated on page 28 of Mr. Bridal's rebuttal testimony, ICC Exhibit 8.0, at lines 683-686, "EIMA would appear to permit incentive compensation plans that reward the achievement of operational goals provided that such plans are prudent and reasonable and consistent with Commission practice." When Mr. Bridal determined in his rebuttal testimony that the ComEd AIP was not consistent with Commission practice, he did not perform additional review of the ComEd AIP to determine its prudence.

(b) Please see the response to ComEd→Staff 8.02(a).

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ComEd→Staff 8.03

(a) Does Mr. Bridal contend that all or any portion of the 2013 Annual Incentive Compensation expense included in the revenue requirement in this proceeding was unreasonable in amount?

(b) If the answer is to subpart (a) anything other than an unqualified "no," please explain the entire rationale for any claim that any portion of the 2013 Annual Incentive Compensation was unreasonable in amount and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) As stated on page 28 of Mr. Bridal's rebuttal testimony, ICC Exhibit 8.0, at lines 683-686, "EIMA would appear to permit incentive compensation plans that reward the achievement of operational goals provided that such plans are prudent and reasonable and consistent with Commission practice." When Mr. Bridal determined in his rebuttal testimony that the ComEd AIP was not consistent with Commission practice, he did not perform additional review of the ComEd AIP to determine its reasonableness.

(b) Please see the response to ComEd→Staff 8.03(a).

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ComEd→Staff 8.06

(a) Does Mr. Bridal agree that, as currently stated in the 2013 Exelon Annual Incentive Compensation Plan, application of the Shareholder Protection Feature can only result in lower incentive compensation costs included in the revenue requirement than if the shareholder protection feature was not included in the Annual Incentive Compensation Plan?

(b) If the answer to subpart (a) is anything other than an unqualified "yes", please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes, with the understanding that earnings per share ("EPS"), below a threshold level will reduce the Annual Incentive Program ("AIP") award to zero. As stated on pages 17-18 of Mr. Bridal's rebuttal testimony, lines 396-417:

The second part of the AIP is a Shareholder Protection Feature ("SPF") which relies on a reference to Exelon's earnings per share ("EPS") and is described on page six of the Exelon 2013 AIP informational guide ("AIP Guide") as follows:

The AIP includes a feature that limits payout for Operating Company and Business Unit KPIs based upon EPS performance. Under this feature:

- The composite payout on Operating Company / Business Unit KPIs cannot exceed the EPS performance payout level by more than 20 percentage points.
- Threshold or higher EPS performance is required for any payout to occur under the AIP.<sup>3</sup>

The AIP Guide describes scenarios in which the amount of Operating Company (e.g., ComEd) AIP payout percentage changes as Exelon EPS performance and operating performance (as measured by the total

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<sup>3</sup> AG Ex. 1.7.7.

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Company KPI) vary.<sup>4</sup> Similar to scenarios set forth within the AIP Guide, the actual 2013 ComEd AIP incentive compensation award *actually paid* to employees and included in the revenue requirement was limited “[b]ecause Exelon’s EPS did not meet a certain level above target.”<sup>5</sup> ComEd states that theoretically, ComEd employees may “not receive any AIP because Exelon failed to meet a certain level of earnings.”<sup>6</sup> ComEd also states “Exelon earnings per share below a threshold level will reduce the AIP award to zero.”<sup>7</sup>

(b) Please see the response to ComEd→Staff 8.06(a).

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<sup>4</sup> Id.

<sup>5</sup> ComEd Ex. 12.0 REV, 6.

<sup>6</sup> Id. at 7.

<sup>7</sup> Attachment B – ComEd response to Staff DR RWB 12.01.

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ComEd→Staff 8.07

(a) Does Mr. Bridal agree that the application of the Shareholder Protection Feature to ComEd's 2013 Annual Incentive Compensation expense resulted in a reduction to that expense and therefore its application provided a benefit to ComEd customers in the form of lower rates?

(b) If the answer to subpart (a) is anything other than an unqualified "yes", please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes, application of the Shareholder Protection Feature ("SPF") to ComEd's 2013 Annual Incentive Program ("AIP") award resulted in a reduction to that expense. Mr. Bridal also agrees that the application of the SPF resulted in AIP incentive compensation expense that was lower than it would have been had the SPF limiter not been applied to the ComEd AIP. Mr. Bridal has no opinion as to whether ComEd customers received a benefit.

(b) Please see the response to ComEd→Staff 8.07(a).

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ComEd→Staff 8.09

Is it Mr. Bridal's non-legal opinion that EIMA prohibits recovery of incentive compensation expense based on any "financial measures" as he uses that term in his testimony, or that EIMA only prohibits recovery of incentive compensation based on net income or EPS of an affiliate?

Response

On pages 21-22 of his rebuttal testimony, Staff Exhibit 8.0, on lines 479-495, Mr. Bridal stated:

Although I am not an attorney, I understand that Section 16-108.5(c)(4) and (c)(4)(A) provide that the performance-based formula rate approved by the Commission shall among other things:

- (4) Permit and set forth protocols, **subject to a determination of prudence and reasonableness consistent with Commission practice and law**, for the following:
  - (A) recovery of incentive compensation expense that is based on the achievement of operational metrics, including metrics related to budget controls, outage duration and frequency, safety, customer service, efficiency and productivity, and environmental compliance. **Incentive compensation expense that is based on net income or an affiliate's earnings per share shall not be recoverable under the performance-based formula rate;**

220 ILCS 5/16-108.5(c)(4)(A)(emphasis added).

It is Mr. Bridal's non-legal opinion that EIMA prohibits recovery of incentive compensation expense based on net income or an affiliate's earnings per share. It is also Mr. Bridal's non-legal opinion that EIMA permits recovery of incentive compensation expense that is based on the achievement of operational metrics subject

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to a determination of prudence and reasonableness consistent with Commission practice and law.

As stated in Mr. Bridal's testimony, it has been Commission practice to not allow recovery of incentive compensation expense where ratepayers received no benefit or questionable benefit and where the payout was dependent upon achievement of financial goals or financial performance. Mr. Bridal considers financial goals and financial performance to be synonymous with "financial measures" as he uses the term in lines 830-832 and 853-854 of his rebuttal testimony, Staff Exhibit 8.0.

Response to ComEd's  
Eleventh Set of Data Requests to Staff  
Docket No. 14-0312  
Response of Staff Witness Richard W. Bridal II

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ComEd→Staff 11.01

Does Mr. Bridal agree with ComEd witness Hemphill's surrebuttal testimony at lines 17-29 regarding the resolution of corporate credit card expenses in this proceeding?

Response

Mr. Bridal has no issues with Mr. Hemphill's proposed resolution of the issue regarding corporate credit card expense as set forth at lines 17-29 of ComEd Ex. 24.0.

It is Mr. Bridal's understanding that subsequent to the completion of this proceeding, ComEd will meet and work with Staff to narrow and resolve in future proceedings the concerns regarding credit card costs, like those raised in my testimony in this proceeding.

Response to ComEd's  
Twelfth Set of Data Requests to Staff  
Docket No. 14-0312  
Response of Staff Witness Richard W. Bridal II

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ComEd→Staff 12.01

Does Mr. Bridal agree with the calculation of the impacts of his 102.9% limiter proposal as set forth in ComEd Ex. 25.0 3:49-55 and ComEd Ex. 25.01?

Response

Yes, with the understanding that Staff's agreement is based solely on ComEd's representation that ComEd's 2013 pension costs included in the revenue requirement assumed a 100% AIP payout for 2013, as explained in page 3 of ComEd Ex. 25.0, lines 49-55, and pages 31-32 of ComEd Ex. 2.0, lines 646-655. Staff understands the referenced testimony to mean that to the extent the revenue requirement is proposed or otherwise adjusted to include less than 100% AIP payout, a derivative downward pension adjustment is also necessary.

Response to ComEd's  
Thirteenth Set of Data Requests to Staff  
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ComEd→Staff 13.01

- (a) Does Mr. Bridal agree that there is a distinction between factors that (1) determine whether employees earn an incentive compensation award and (2) whether and in what amount an earned award is paid out?
- (b) If the answer to subpart (a) is anything other than an unqualified "yes," please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes. Mr. Bridal agrees that ComEd's AIP plan makes a distinction between (1) factors that determine whether employees "earn" an Annual Incentive Program ("AIP") incentive compensation award (e.g., performance on operational goals or metrics) and (2) factors that determine whether and in what amount an award is paid out and included in the revenue requirement (e.g., the Shareholder Protection Feature ("SPF") which relies on Exelon earnings per share ("EPS")). As stated in pages 18-19 of Staff Exhibit 8.0, lines 423-428:

Regardless of the level to which the ComEd AIP incentive compensation award is "earned" or "funded" by KPI performance, the ultimate determination as to the amount of the ComEd AIP incentive compensation paid to ComEd employees and to be included in the revenue requirement is the application of the Exelon EPS component of the SPF.

Finally, Mr. Bridal is advised by counsel that under EIMA the determining factors for whether incentive compensation expense is recoverable through the formula rate is set forth in Section 16-108.5(c)(4)(A). The words "earn" and "paid out" appear nowhere in Section 16-108.5(c)(4)(A); therefore, whether there is a difference between "earned" and "paid out" is irrelevant in determining whether incentive compensation expense is recoverable through the formula rate.

- (b) Please see the response to ComEd→Staff 13.01(a).

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ComEd→Staff 13.02

(a) Does Mr. Bridal agree that, in the cases discussed in his rebuttal testimony, when the ICC has disallowed incentive compensation for reasons of reliance on EPS or net income it is because EPS or net income has been used to determine whether incentive compensation would be earned?

(b) If the answer to subpart (a) is anything other than an unqualified "yes," please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) No. Mr. Bridal understands that, in the cases discussed in his rebuttal testimony, when the ICC has disallowed incentive compensation for reasons of reliance on earnings per share ("EPS") or net income, it is because the requested incentive compensation to be included in the revenue requirement in each respective case relied upon or was related to, dependent on/upon, contingent upon, based on, or tied in some way to EPS or net income.

Mr. Bridal is not aware of any language in the Commission Orders cited in his testimony which qualify the Commission conclusions in those Orders to the extent that the conclusions apply only to situations where EPS or net income has been used to determine whether incentive compensation would be "earned" as ComEd uses the term in its testimony regarding incentive compensation in this proceeding.

(b) Please see the response to ComEd→Staff 13.02(a).

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ComEd→Staff 13.03

(a) Does Mr. Bridal agree that in the case of ComEd's 2013 Annual Incentive Compensation, Exelon EPS was not used to determine whether an Annual Incentive Compensation award would be earned?

(b) If the answer to subpart (a) is anything other than an unqualified "yes," please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes. As the term "earned" is used in ComEd testimony regarding incentive compensation in this proceeding, Mr. Bridal agrees that Exelon earnings per share ("EPS") was not used to determine whether the 2013 ComEd Annual Incentive Program ("AIP") incentive compensation award would be "earned." As stated in page 18 of his rebuttal testimony, Staff Exhibit 8.0, lines 411-414, Mr. Bridal understands that "the actual 2013 ComEd AIP incentive compensation award *actually* paid to employees and included in the revenue requirement was limited "[b]ecause Exelon's EPS did not meet a certain level above target."<sup>1</sup> Finally, Mr. Bridal is advised by counsel that under EIMA the determining factors for whether incentive compensation expense is recoverable through the formula rate is set forth in Section 16-108.5(c)(4)(A). The word "earn" appears nowhere in Section 16-108.5(c)(A)(4).

(b) Please see the response to ComEd→Staff 13.03(a).

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<sup>1</sup> ComEd Ex. 12.0 REV, 6.

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ComEd→Staff 13.04

(a) Does Mr. Bridal agree that in the case of ComEd's 2013 Annual Incentive Compensation, Exelon EPS was used only to determine whether and in what amount an award earned would be paid out?

(b) If the answer to subpart (a) is anything other than an unqualified "yes," please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes. As the term "earned" is used in ComEd testimony regarding incentive compensation in this proceeding, Mr. Bridal agrees that in the case of ComEd's 2013 Annual Incentive Program ("AIP") incentive compensation, Exelon earnings per share ("EPS") was used only to determine whether and in what amount an award "earned" would be paid out and included in the revenue requirement. Finally, Mr. Bridal is advised by counsel that under EIMA the determining factors for whether incentive compensation expense is recoverable through the formula rate is set forth in Section 16-108.5(c)(4)(A). The words "paid out" appear nowhere in Section 16-108.5(c)(A)(4).

(b) Please see the response to ComEd→Staff 13.04(a).

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ComEd→Staff 13.05

(a) Does Mr. Bridal agree that in the case of ComEd's 2013 Annual Incentive Compensation, the factors that determine whether an award would be earned are solely operational or cost control metrics?

(b) If the answer to subpart (a) is anything other than an unqualified "yes," please explain fully and produce all documents that Mr. Bridal believes support such a conclusion.

Response

(a) Yes. As the term "earned" is used in ComEd testimony regarding incentive compensation in this proceeding, Mr. Bridal agrees that in the case of ComEd's 2013 Annual Incentive Program ("AIP") incentive compensation, the factors that determine whether an award would be "earned" are solely operational or cost control metrics.

Finally, Mr. Bridal is advised by counsel that under EIMA the determining factors for whether incentive compensation expense is recoverable through the formula rate is set forth in Section 16-108.5(c)(4)(A). The word "earned" appears nowhere in Section 16-108.5(c)(A)(4), therefore whether the incentive compensation is earned based on operational or cost control metrics is irrelevant in determining whether incentive compensation expense is recoverable through the formula rate.

(b) Please see the response to ComEd→Staff 13.05(a).