ComEd Ex. 9.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 15-0287
Annual formula rate update and revenue requirement reconciliation under Section 16-108.5 of the Public Utilities Act	:	

Rebuttal Testimony of

CHAD A. NEWHOUSE

Manager,

Revenue Policy

Commonwealth Edison Company

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I. INTRODUCTION

A. Witness Identification

Q. **What is your name and business address?**

A. My name is Chad A. Newhouse. My business address is Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

Q. **By whom and in what position are you employed?**

A. I am the Manager, Revenue Policy, of Commonwealth Edison Company ("ComEd").

B. Purpose of Rebuttal Testimony

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

A. The purpose of this rebuttal testimony is twofold. First, I adopt the direct testimony of Mr. Sandeep S. Menon (ComEd Exhibit ("Ex.") 2.0) in this proceeding, which was filed with the Illinois Commerce Commission ("ICC" or "Commission") on April 15, 2015. Second, I respond to the direct testimony of Attorney General ("AG") and City of Chicago ("City") witness David Effron regarding customer advances; and to the direct testimony of Staff of the Illinois Commerce Commission ("Staff") witnesses Richard Bridal and Burma Jones regarding the Employee Savings Plan ("ESP"), outside service costs, credit card expenditures and industry association dues.

C. Summary of Conclusions

Q. **What are the primary conclusions of your rebuttal testimony?**

A. In summary, I present ComEd's updated rate base and operating expenses, and in addition I conclude as follows:

(1) (a) ComEd's 2014 Reconciliation Revenue Requirement based upon actual 2014 costs is $2,265,311,000; (b) ComEd's 2016 Initial Rate Year Revenue Requirement is $2,438,423,000; and (c) ComEd's 2016 Rate Year Net Revenue Requirement, to go into effect in January 2016 is $2,528,142,000.

(2) Staff witness Mr. Bridal's proposal to disallow the profit sharing match portion of the ESP should be rejected because it relies on the incorrect premise that the ESP is an incentive compensation plan.

(3) Staff's proposal to disallow all Advanced Metering Infrastructure ("AMI") event management costs related to providing educational AMI materials to customers should be rejected as the information was provided to build awareness and education around energy management, smart meters, and associated smart meter benefits - not goodwill or institutional advertising as Staff claims.

(4) ComEd disagrees with and recommends that the Commission reject Staff witness Ms. Jones' proposal to disallow certain credit card expenses as the costs were incurred prudently and reasonably, for a purpose that ultimately benefits ratepayers.

(5) ComEd agrees in part with AG/City witness Mr. Effron's recommendation to disallow $5.2 million of customer advances. While ComEd agrees that the reconciliation year rate base should be reduced by the amount of jurisdictional advances held at the end of the reconciliation year, ComEd does not agree with Mr. Effron's adjustment insomuch as it (1) inappropriately reduces rate base for non-jurisdictional advances, and (2) inappropriately duplicates the reduction of

rate base related to advances for projects where this reduction has already been factored into the balance of projected plant additions. ComEd proposes a solution that adjusts the reconciliation year rate base for advances related to jurisdictional projects and does not duplicate the impact to the forecast year rate base reduction.

(6) ComEd agrees, in part, with Staff witness Ms. Jones' proposal to disallow certain industry membership dues. ComEd accepts $22,000 (jurisdictional) of Ms. Jones' proposed total disallowance of $55,000 (jurisdictional). However, certain memberships for which Staff's proposed disallowance was based should not be fully excluded, as these organizations provide benefits beyond those identified by Ms. Jones, and are reasonably and prudently incurred for the purpose of receiving those benefits.

(7) Staff and AG/City have made several other recommendations pertaining to Accumulated Deferred Income Taxes - Stock Options, regulatory commission expenses, charitable contributions and others that ComEd either believes are appropriate or will not contest in this case in order to limit the issues in this formula rate update proceeding, without waiving any right to object to the same or similar proposals in a future proceeding.

D. <u>Itemized Attachments to Rebuttal Testimony</u>

Q. **What are the attachments to your rebuttal testimony?**

A. The attachments to my rebuttal testimony are:

(1) **ComEd Ex. 9.01** contains the following applicable schedules and appendices of ComEd's revenue requirement formula, populated with data reflecting ComEd's

2016 Rate Year Net Revenue Requirement and its components for charges to become effective with the January 2016 monthly billing period:

- Revenue Requirement Formula Schedule ("Sch") FR A-1, Sch FR A-1 - REC, Sch FR A-2, Sch FR A-3, Sch FR A-4, Sch FR B-1, Sch FR B-2, Sch FR C-1, Sch FR C-2, Sch FR C-3, Sch FR C-4, Sch FR D-1, Sch FR D-2, Appendix ("App") 1, App 2, App 3, App 4, App 5, App 6, App 7, App 8, App 9, App 10, and App 11.

The amounts presented are largely the same as presented in ComEd Ex. 2.01, adjusted for the issues discussed later in my rebuttal testimony.

(2) **ComEd Ex. 9.02** contains the workpapers that have been updated from ComEd Ex. 2.02 to support the schedules and appendices in ComEd Ex. 9.01:

- WP3, WP4, WP7, WP11, and WP19;

(3) **ComEd Ex. 9.03** contains the following "Part 285" schedules that have been updated from ComEd Ex. 2.03 and are required to be submitted in a general rate case under Part 285 to support the revenue requirement calculations associated with Sch FR A-1 - REC:

- Part 285 Schedule As: A-2 RY, A-4 RY, and A-5 RY;
- Part 285 Schedule Bs: B-1 RY, B-8 RY, B-9, and B-15;
- Part 285 Schedule Cs: C-1 RY, C-2.4, C-5 RY, C-5.4 RY, C-7, C-21, and C-26;

(4) **ComEd Ex. 9.04** contains workpapers that have been updated from ComEd Ex. 2.04 to support the Part 285 schedules included in ComEd Ex. 9.03:

- WPB-8RY, WPC-1a, and WPC-1h;

(5) **ComEd Ex. 9.05** contains the following Part 285 schedules that have been updated from ComEd Ex. 2.05 to support the 2016 Rate Year Net Revenue Requirement presented on Sch FR A-1 to the extent that they differ from the Part 285 schedules that support the 2014 Reconciliation Revenue Requirement presented in Sch FR A-1 - REC:

- Part 285 Schedule As: A-1 FY, A-2 FY, A-4 FY, and A-5 FY;
- Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.4 FY, B-2.5 FY and B-8 FY;
- Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY;

(6) **ComEd Ex. 9.06** contains workpapers that have been updated from ComEd Ex. 2.06 to support the Part 285 schedules included in ComEd Ex. 2.05:

- WPB-2.4 FY, WPB-8 FY and WPC-2.1 FY;

(7) **ComEd Ex. 9.07** contains a detailed bridge of the changes from ComEd's revenue requirement as presented in ComEd Ex. 2.01 to its revenue requirement as presented in ComEd Ex. 9.01.

(8) **ComEd Ex. 9.08** contains examples of educational materials that were distributed through the #SmartMeetsSweet initiative, as well as pictures that provide visual representation of the customer contacts that were made through the initiative.

Unless otherwise noted, the schedules, appendices, and work papers in ComEd Exs. 9.01 through 9.08 have been prepared by me or under my direct supervision.

E. Background and Qualifications

Q. **What are your responsibilities at ComEd?**

A. As Manager, Revenue Policy, I am responsible for the review and evaluation of potential regulatory alternatives for ComEd, with a focus on financial issues. I am also responsible for the oversight and coordination of activities related to the development of ComEd's revenue requirements at both the State and Federal levels.

Q. **What is your professional experience?**

A. I began my career at KPMG, LLP in Chicago, where I held various roles of increasing responsibility within the external assurance practice of the firm. Prior to joining Exelon Corporation ("Exelon"), I spent several years at Bankers Life and Casualty Company, where I was the Manager of Internal Audit. I have been employed in various positions since 2007 with either Exelon, ComEd's parent company, or ComEd, including roles as Principal Internal Auditor within different functions of Exelon's Internal Audit Department and Principal Regulatory Analyst in ComEd's Revenue Policy Department. In April 2015, I was promoted to my current position, Manager of Revenue Policy for ComEd.

Q. **What is your educational background?**

A. I received a Bachelor of Arts Degree in Accounting (with distinction) from Illinois Wesleyan University and am a Registered CPA in Illinois.

II. MENON DIRECT TESTIMONY

Q. **Are you adopting the direct testimony and exhibits previously filed by Sandeep S. Menon in this proceeding?**

A. Yes. With the exception of the portions relating to his identity and qualifications, I am adopting the direct testimony and exhibits filed by Mr. Menon in this proceeding in ComEd Ex. 2.0.

Q. **Why are you adopting Mr. Menon's testimony (ComEd Ex. 2.0)?**

A. Mr. Menon recently accepted a different position within ComEd. I have assumed his prior responsibilities, including those pertaining to this proceeding.

III. DELIVERY SERVICE REVENUE REQUIREMENT

A. 2014 Reconciliation Year Revenue Requirement

Q. **Have you updated ComEd's 2014 Reconciliation Year revenue requirement?**

A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1 REC, line 23, ComEd's updated 2014 Reconciliation Year revenue requirement is $2,265,311,000. This amount incorporates adjustments, including adjustments to operating expense and rate base, agreed to by ComEd as described in the rebuttal testimony of Christine Brinkman (ComEd Ex. 8.0) and later in my own rebuttal testimony.

B. 2016 Initial Rate Year Revenue Requirement

Q. **Have you updated ComEd's 2016 Initial Rate Year revenue requirement?**

A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1, line 23, ComEd's updated 2016 Initial Rate Year Revenue Requirement is $2,438,423,000. This amount incorporates adjustments, including adjustments to operating expense and rate base, agreed to by ComEd in the rebuttal testimony of Christine Brinkman (ComEd Ex. 8.0) and described later in my own rebuttal testimony.

C. 2016 Net Rate Year Revenue Requirement

Q. **Have you updated ComEd's 2016 Net Rate Year revenue requirement?**

A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1, line 36, ComEd's updated 2016 Rate Year Net Revenue Requirement is $2,528,142,000. This amount incorporates adjustments, including adjustments to operating expense, rate base and cost of capital, agreed to by ComEd in the rebuttal testimony of Christine Brinkman (ComEd Ex. 8.0) and described later in my own rebuttal testimony. This updated revenue requirement is the basis for the delivery services rates that should go into effect in January, 2016.

IV. RATE BASE

A. 2014 Reconciliation Year Rate Base

Q. **Have you updated ComEd's 2014 Reconciliation Year rate base?**

A. Yes. As I describe below, ComEd has made several adjustments to its 2014 Reconciliation Year rate base. After making these adjustments, ComEd's updated 2014 Reconciliation Year rate base is $7,081,532,000. See ComEd Ex. 9.01, Sch FR B-1, line 28.

B. Customer Advances for Construction

Q. **AG/City witness Mr. Effron (Effron Dir., AG/City Ex. 2.0, 3:57-5:101) recommends that $5,178,000 of customer advances should be deducted from rate base. Should Mr. Effron's adjustment be accepted?**

A. Not in total, or as proposed. However, Mr. Effron raises one issue affecting the reconciliation revenue requirement only for which an adjustment is appropriate. ComEd

proposes an alternative adjustment that implements the valid portion of Mr. Effron's adjustment without the double-counting he proposes.

Q. **Please explain why these adjustments should not be accepted as proposed.**

A. Mr. Effron's adjustment of $5,178,000 is made up of: (1) non-jurisdictional projects; and (2) projects not included in the reconciliation year rate base, broken down as follows:

$564,000 represents deposits for non-jurisdictional projects. ComEd's rate base should not be reduced for such deposits because the underlying projects are not included in delivery service rate base. The costs incurred for this work are recorded below the line or allocated to a non-delivery service function. The related deposit is recorded consistent with the treatment of the costs. It would be unfair to reduce ComEd's rate base for amounts that were never included in rate base.

$4,614,000 represents the jurisdictional portion of deposits related to projects which are included in ComEd's 2015 projected plant additions. The amount included in projected plant additions is already reduced to reflect the application of the advances as a reduction to rate base. Said differently, projected plant additions is a net number; thus, applying a further reduction to rate base for these deposits would be reducing rate base twice for the same amounts.

Q. **Does Mr. Effron consider the duplication of the adjustment for projected plant additions in his recommendation?**

A. He does not. Mr. Effron's recommendation ignores the fact that these deposits have already been netted in the projected plant additions amount. To deduct these advances again, as Mr. Effron suggests, would be reducing rate base twice for the same thing.

Q. **If Mr. Effron is not considering advances already included in the consideration of the revenue requirement, what is the premise for Mr. Effron's adjustment?**

A. Mr. Effron (Effron Dir., AG/City Ex. 2.0, 4:82-88) focuses on the balance of customer advances that are held on ComEd's books at the end of the reconciliation year. He states:

> If the Company is holding funds represented by customer advances, those customer advances should be deducted from plant in service in the determination of the reconciliation year rate base, even if the associated projects have not commenced as of the end of the year. The only exception should be where the Company has actually expended the funds and such expenditures are not included in rate base and not included in the balance of construction work in progress accruing an allowance for funds used during construction.

Mr. Effron is suggesting that the reconciliation year rate base should be reduced when ComEd is holding customer advances at the end of the year. ComEd agrees with that premise. However, the current formula does not allow for an adjustment to rate base that would impact only the reconciliation year rate base, without also impacting the forecast year rate base, where the adjustment is not warranted because the customer advances have already been removed from the rate base in presenting the projected plant additions.

Q. **Do you have a recommendation that resolves this issue accurately and in accordance with the premise on which you and Mr. Effron agree?**

A. Yes. ComEd agrees to remove the jurisdictional amount of customer advances, approximately $4.6 million, from rate base on App 1, Line 25. This will have the effect of reducing rate base for both the reconciliation year and the initial rate year. Next, ComEd will also increase the projected plant additions for this same amount, on WP 19, in order to ensure that the duplication of the reduction in rate base for the initial rate year does not impact the revenue requirement.

Q. **Why is this recommendation the best solution?**

A. By removing the $4.6 million from rate base on App 1, Line 25, this adjustment does remove the funds held at the end of the reconciliation year from the reconciliation rate base. And, accomplishing that deduction in this manner also prevents the adjustment that Mr. Effron proposes from double-counting the reduction of rate base already accounted for in projected plant additions. By making this adjustment, ComEd agrees to reduce the revenue requirement by $527,000 in the reconciliation year. Changes have been made to WPs 11 and 19 in ComEd Ex. 9.02 to reflect the updates necessary to facilitate this change.

C. Accumulated Deferred Income Taxes - Stock Options

Q. **AG/City witness Mr. Effron (Effron Dir., AG/City Ex. 2.0, 5:104-6:121) discusses an adjustment to Accumulated Deferred Income Taxes ("ADIT") associated with Stock Options; Other Equity Based Compensation that ComEd acknowledged would be made in rebuttal testimony. Has this adjustment been made?**

A. Yes. As stated in ComEd's response to AG Data Request 3.03, ComEd has removed $7,541,000 from both the reconciliation year rate base and the rate base for the 2016 initial revenue requirement. *See* ComEd Ex. 9.02, WP 4, Page 1, Line 33.

V. OPERATING EXPENSES

A. Employee Savings Plan

Q. **Staff witness Mr. Bridal (Bridal Dir., Staff Ex. 4.0, 7:148-9:181) proposes an adjustment to remove costs associated with the profit sharing match contributed to the non-represented ESP. Does ComEd agree with this adjustment?**

A. No. Mr. Bridal's proposed adjustment relies on the incorrect premise that the ESP is an incentive compensation program. He then states that the Commission has held that incentive compensation based on the achievement of earnings per share is not recoverable from rate payers. Specifically, he cites two prior Commission orders (ICC Docket Nos. 07-0566 and 09-0166) where some level of incentive compensation was disallowed. Mr. Bridal's premise is wrong, however. The ESP is not an incentive compensation program; rather, it is an employee benefit plan: a qualified retirement plan under Sections 401(a) and 401(k) of the Internal Revenue Code, governed by the Employee Retirement Income Security Act ("ERISA").

Q. **Why does it matter whether the ESP is a 401(k) plan as opposed to an incentive compensation plan?**

A. Neither the Energy Infrastructure Modernization Act ("EIMA") nor Commission practice and precedent prohibit recovery of *all* compensation in any way *related to* earnings per share. Neither of the cases that Mr. Bridal cites involves a determination regarding costs associated with other compensation or benefits. Indeed, both cases that Mr. Bridal references refer only to incentive compensation programs (i.e., Annual Incentive, Long-Term Incentive, Stock). This is because only recovery of *incentive* compensation *based on* earnings per share is prohibited. Retirement plans like ComEd's ESP are not incentive compensation. Indeed, they are more akin to health and welfare benefits than traditional salaried compensation, let alone incentive compensation.

Q. **Is there any other reason why the Commission should allow recovery of these costs?**

A. Yes. Prior to 2010, the Company provided an ESP for non-represented employees that contributed a fixed match of up to 5.0% of a participant's eligible pay, with no additional profit-sharing match. Starting in 2010, this fixed match was replaced by a 3.0% fixed match, combined with a profit-sharing match of up to 3.0%. Since moving to a combined fixed/profit-sharing match ESP, ComEd has incurred lower benefit plan costs attributed to the ESP. Specifically, since 2010, the average payout (fixed match plus profit-sharing match) has been 4.2%. This is a 0.8% reduction in overall payout as compared to the 5.0% ESP payout prior to including the profit-sharing match. In 2014 in particular, only 0.5% was attributed to the profit-sharing match, providing rate payers with a 1.5% savings from the fixed match ESP. The following table shows the profit-sharing match contribution since 2010:

Management Employees Historical Employee Savings Plan Profit Sharing Payouts							
	Post 2010 ESP Match				Pre-2010 ESP Match		Variance
Plan Year	Fixed Match	Profit Sharing Match	Total Post-2010 Match		Fixed Match		
2010	3.00%	3.00%	6.00%		5.00%		1.00%
2011	3.00%	2.20%	5.20%		5.00%		0.20%
2012	3.00%	0.00%	3.00%		5.00%		(2.00%)
2013	3.00%	0.33%	3.33%		5.00%		(1.67%)
2014	3.00%	0.50%	3.50%		5.00%		(1.50%)

As shown in the figures provided above, since 2010, lower costs have been attributed to the ESP, providing further evidence that the ESP costs are both reasonable and prudently incurred.

B. <u>Outside Services</u>

Q. **What recommendation does Staff witness Ms. Jones make in her direct testimony regarding outside services?**

A. Ms. Jones (Jones Dir., Staff Ex. 2.0, 9:167-10:182) recommends a proposed adjustment to disallow event management costs related to the #SmartMeetsSweet truck which were incurred for the purpose of distributing information and educating customers on AMI meters.

Q. **Is this recommendation appropriate?**

A. No. Ms. Jones proposes a disallowance for the entire cost of the #SmartMeetsSweet truck primarily because ComEd provided ice cream cones and cookies to customers at these events, and she concludes that the related expenses were therefore "goodwill or institutional advertising primarily to improve the image of the utility" (Jones Dir., Staff Ex. 2.0, 9:173-10:174).

Q. **What was the purpose of the outside service costs that Ms. Jones proposes for disallowance?**

A. One of ComEd's goals in association with the deployment of AMI meters is to provide customers with information to build awareness and education around energy management, smart meters and associated smart meter benefits. Channels for such information and education include attending or creating community events in order to abide by the AMI outreach guiding principle of "Meet People Where They Are." This principle focuses on taking AMI deployment information directly to customers in order to

facilitate engagement and advocacy. ComEd's AMI community event and outreach program takes a three-pronged approach:

- Community Events - ComEd seeks out local community festivals and sporting events in areas where meters are scheduled to be deployed to inform customers - through direct interactions, brochures and video kiosks - that smart meters are coming.
- Street Teams - Street Teams utilize trained ambassadors to greet and interact with customers in high foot-traffic areas, such as train stations, and to distribute educational brochures. These "quick touch" interactions allow for the distribution of information where customers can learn more about smart meters while commuting to work or home.
- #SmartMeetsSweet Truck - To provide outreach in deployment areas where community events were not typically scheduled in correlation with the timing of AMI deployment, ComEd created and launched the #SmartMeetsSweet truck to provide customers with an engaging way to learn about smart meter installations and their associated benefits.

The costs that Ms. Jones is recommending for disallowance relate to the #SmartMeetsSweet initiative.

Q. **Are the costs that Ms. Jones is recommending for disallowance associated with "goodwill or institutional advertising" as she presumes?**

A. No. As mentioned above, the primary purpose of the #SmartMeetsSweet truck is to bring information about AMI deployment directly to where customers are, at a time coinciding

with AMI deployment and when other community events have typically not been planned. While Ms. Jones' premise for the disallowance is based on the fact that ice cream and cookies are provided to customers at these events, the vast majority of the costs are not related to these treats. Rather, approximately $478,000 of the $518,000 (jurisdictional) that Ms. Jones recommends for disallowance relates to the event planning, staffing, transportation and educational material costs (see ComEd Ex. 9.08 for examples of materials provided during the #SmartMeetsSweet customer engagement and pictures of customers interacting with the team). The "event" concept of the #SmartMeetsSweet truck and the use of cookies and ice cream are tools that were prudently incurred and reasonable in amount to engage customers. In fact, as a result of this initiative, over 36,000 direct customer interactions were made. Without the #SmartMeetsSweet truck and the use of cookies and ice cream to initially engage customers, many of those direct customer interactions would not have otherwise happened.

Q. **Does Ms. Jones provide any other insight into her recommendation?**

A. Yes. Ms. Jones (Jones Dir., Staff Ex. 2.0, 10:174-179) notes that the expenditures were not recorded by ComEd as customer service and informational expense, but as a miscellaneous general expense. She appears to conclude that this accounting classification is proof that the expenditures were not for the purpose of informing customers of the benefits of smart meters and therefore not recoverable.

Q. **What is your response?**

A. As stated previously, the expenditures were for the purpose of bringing information related to AMI meters and their deployment to customers where they are located.

However, I do agree with Ms. Jones that the expenditures were incorrectly classified. ComEd recognizes this and has made a correction so that in the future it will record these costs to FERC account 908 - Customer Assistance Expenses.

C. <u>Credit Card Expenditures</u>

Q. **What does Staff witness Ms. Jones (Jones Dir., Staff Ex. 2.0, 7:132-8:139) propose in relation to credit card expenditures?**

A. Ms. Jones recommends disallowance of approximately $690,000 of credit card expenditures that are associated with employee recognition.

Q. **Does the disallowance recommended by Ms. Jones contain any non-jurisdictional costs?**

A. Yes. Included in Ms. Jones' $690,000 proposed disallowance is approximately $73,000 of costs that are transmission related - booked to FERC accounts 560 and 568, as Ms. Jones notes in her testimony at Ex. 2.0, Schedule 2.03, page 2, lines 6 and 7. These costs should not be considered for disallowance in the instant proceeding as they are not included in the revenue requirement.

Q. **Should the Commission accept this remaining proposed adjustment of $617,000?**

A. No. ComEd places a high value on employee recognition because it promotes an environment of appreciation, dedication and motivation for employees. This acknowledgment that hard work is valued translates to a higher performing workforce.

The charges that Ms. Jones proposes to specifically disallow include costs prudently and reasonably incurred to recognize individual employees and teams for their

accomplishments. Examples of these accomplishments include the completion of rigorous training programs or meeting/exceeding significant project milestones. These types of activities help employees to see that their service and achievement are recognized on a relatively real-time basis, which motivates them to perform their day-to-day work at higher standards. Considering that ComEd employees from all departments may impact customers, whether it be through storm restoration, routine maintenance, or in the community, an engaged and dedicated employee is more likely to go the extra mile for customers. When employees feel valued by their employer and by their manager, their performance at work is part and parcel of providing customers with a premier experience. These recognition awards promote and reinforce that commitment to high quality that customers in turn are able to see.

ComEd continues to put the delivery of a premier customer experience at the forefront of our employees' minds - it is for this reason that ComEd rewards the behavior that achieves this result, and it is for this reason that the associated costs are prudently and reasonably incurred and should not be disallowed.

D. <u>Industry Association Dues</u>

Q. **What recommendation does Staff Witness Ms. Jones make in her direct testimony regarding industry membership dues?**

A. Ms. Jones (Jones Dir., Staff Ex. 2.0, 3:56-7:115) recommends a proposed adjustment to disallow expenditures related to four industry memberships.

Q. **Does ComEd accept this recommendation?**

A. In part. ComEd accepts Ms. Jones' proposal to remove 10% of the membership dues for the Will County Center for Economic Development from the revenue requirement. This adjustment has been reflected in ComEd Ex. 9.02, WP 7, Page 2, Line 38d.

Additionally, in order to limit the issues in this case and without waving its right to contest other proposed disallowances based on similar arguments in this or any other proceeding, ComEd agrees to reduce the amount of costs for which ComEd is seeking recovery as it relates to the Illinois Environmental Regulatory Group ("IERG") and the Utility Solid Waste Activities Group ("USWAG"). These adjustments have been made to ComEd Ex. 9.02, WP 7, Page 2, Line 38d.

ComEd does not accept, however, Ms. Jones' proposal to disallow the membership fees for the Executives' Club of Chicago, or the remaining fees associated with the IERG and the USWAG that ComEd did not voluntarily remove. Instead, ComEd proposes to voluntarily remove 50%, or approximately $22,000 (jurisdictional), of the IERG and USWAG membership fees from the revenue requirement.

Q. **Why is a 50% adjustment appropriate?**

A. While IERG and USWAG provide for advocacy on behalf of their members before various governing bodies on proposed environmental requirements, that is not their sole function, and these organizations provide services to ComEd beyond regulatory advocacy. A 100% disallowance does not recognize those functions or benefits.

The IERG provides extensive information to its members regarding developing and recent environmental regulations and legislation, apart from any advocacy function. IERG offers written explanations and summaries, holds meetings and provides seminars

to help educate its members on such environmental requirements. ComEd gains an improved understanding of the environmental regulations and legislation applicable to ComEd's operations, which contributes toward ComEd's efforts to assure and maintain compliance and to establish and implement best practices. By providing early information on upcoming requirements, ComEd is better able to understand and plan for their timely implementation. ComEd's membership in IERG is a prudently incurred operating expense, and the costs of that membership are reasonably incurred, for reasons entirely apart from lobbying or policy advocacy.

USWAG focuses on solid and hazardous waste issues of importance to the utility industry. USWAG helps educate its members on upcoming and recent regulatory and legislative developments including by providing an updated library of related materials available for review by all members and through conferences and webinars including, at times, USWAG representatives regarding company-specific issues. With the information and services provided by USWAG, ComEd is able to better understand, plan for and implement upcoming requirements as well as benchmark with other utilities. This serves to improve ComEd's timely and thorough compliance with such requirements. ComEd's membership in USWAG is a prudently incurred operating expense, and the cost of that membership is reasonably incurred, for reasons having nothing to do with lobbying or policy advocacy.

Q. **Why is no more than a 50% disallowance appropriate?**

A. Removing 50% of the membership fees associated with these organizations is a generous estimate for the amount of "regulatory advocacy" performed. A range of approximately

20% to 35% of non-deductible regulatory advocacy costs is typically noted on invoices for associations such as these, and is evident within the invoices provided in ComEd's response to Staff Data Request BCJ 7.02. In order to limit the issues in this proceeding, ComEd agrees to the proposal to remove 50% of the membership fees related to the IERG and USWAG, which is well above the 20-35% range observed in other similar invoices.

Q. **Why should Ms. Jones' proposal pertaining to the membership fees for the Executives' Club of Chicago be rejected?**

A. Ms. Jones presumes that because membership in this association is exclusive, "ratepayers should not be burdened with this expense." Ms. Jones is incorrect. Membership in the Executives' Club of Chicago allows ComEd executives to connect with other leaders of industry in and around Chicago as well as allows access to programming by thought leaders on business and economic trends. Specific programming includes quarterly business technology conferences, quarterly women's leadership breakfasts (attended by 800-1,200 men and women and is the largest Chicago-area speakers' forum dedicated to the interests of professional women), innovation events to highlight proven best practices, and others. These connections and programming opportunities allow ComEd's leaders to exchange ideas that spur innovation and contribute to economic development in ComEd's service territory, and the membership fee is a prudent and reasonable expense.

Q. **Ms. Jones states that ComEd has voluntarily excluded other certain costs that were inappropriately included as Industry Association Dues. Is this correct?**

A. Yes. As stated in ComEd's response to Staff Data Request BCJ 7.02, ComEd had voluntarily removed $286,000 from the revenue requirement that was inadvertently coded as Industry Association Dues.

E. Regulatory Commission Expense

Q. **What adjustment does Ms. Jones (Jones Dir., Staff Ex. 2.0, 7:117-127) propose related to Regulatory Commission Expense?**

A. Ms. Jones presents a proposed adjustment to disallow recovery of expenses associated with ICC Docket No. 12-0560 related to Rock Island Clean Line LLC because the costs are not related to delivery service.

Q. **Does ComEd accept Ms. Jones' proposal?**

A. Yes. As stated in ComEd's response to Staff Data Request BCJ 4.04, ComEd removed these costs from the revenue requirement in the instant proceeding. This adjustment is reflected in ComEd Ex. 9.02, WP 7, Page 8, Line 18.

F. Other Operating Expense Adjustments

Q. **Has ComEd made any additional changes to any formula inputs as a result of the discovery process?**

A. Yes. ComEd has agreed to several additional adjustments during the discovery process. Details from the related Data Request responses, workpaper references, and total impact to the revenue requirement are reflected in the detailed bridge provided at ComEd Ex. 9.07.

VI. CONCLUSION

Q. **Does this conclude your rebuttal testimony?**

A. Yes.