

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSOIN**

**COMMONWEALTH EDISON COMPANY)
PETITION FOR APPROVAL OF)
PERFORMANCE AND)
TRACKING METRICS PURSUANT)
TO 220 ILCS 5/16-108.8(e))**

Docket No. 22-0067

**Direct Testimony of
Melissa Whited and Ben Havumaki**

**On Behalf of
The People of the State of Illinois**

AG Exhibit 1.0

April 6, 2022

Table of Contents

I. INTRODUCTION AND QUALIFICATIONS..... 1

II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS..... 4

III. REGULATORY CONTEXT 6

 Section 16-108.18 of the Public Utilities Act 6

 Principles for PIMs..... 12

 Utilities Must Conduct Benefit-Cost Analyses of Proposed PIMs 19

IV. COMED’S PROPOSED PIMS 22

 Summary of ComEd’s PIMs Proposal 22

 SAIDI PIM (Number 1) 23

 Customers Exceeding Minimum Service Levels PIM (Number 2) 34

 SYSTEM Visibility Index PIM (Number 3)..... 37

V. COMED’S PROPOSED TRACKING METRICS 39

VI. CONCLUSION AND SUMMARY OF RECOMMENDATIONS 40

Exhibit AG 1.1: Resume of Melissa Whited

Exhibit AG 1.2: Resume of Ben Havumaki

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, title, and employer.**

3 **A. Ms. Whited:** My name is Melissa Whited. I am a Principal Associate at Synapse Energy
4 Economics (“Synapse”), located at 485 Massachusetts Avenue, Cambridge, MA 02139.

5 **Mr. Havumaki:** My name is Ben Havumaki. I am a Senior Associate at Synapse Energy
6 Economics, located at 485 Massachusetts Avenue, Cambridge, MA 02139.

7 **Q. Please describe Synapse Energy Economics.**

8 **A.** Synapse Energy Economics is a research and consulting firm specializing in electricity
9 and gas industry regulation, planning, and analysis. Our work covers a range of issues,
10 including economic and technical assessments of demand-side and supply-side energy
11 resources; energy efficiency policies and programs; integrated resource planning;
12 electricity market modeling and assessment; renewable resource technologies and
13 policies; and climate change strategies. Synapse works for a wide range of clients,
14 including state attorneys general, offices of consumer advocates, trade associations,
15 public utility commissions, environmental advocates, the U.S. Environmental Protection
16 Agency (EPA), U.S. Department of Energy (DOE), U.S. Department of Justice, the
17 Federal Trade Commission, and the National Association of Regulatory Utility
18 Commissioners. Synapse has over 30 professional staff with extensive experience in the
19 electricity industry.

20 **Q. Please summarize your professional and educational experience.**

21 A. **Ms. Whited:** I have 12 years of experience in economic research and consulting. At
22 Synapse, I have worked extensively on issues related to utility regulatory models,
23 performance incentive mechanisms, and rate design. In 2015, I was the lead author of a
24 report for the Western Interstate Energy Board titled “Utility Performance Incentive
25 Mechanisms: A Handbook for Regulators,” and I have presented on performance
26 incentive mechanisms to the National Association of Regulatory Utility Commissioners,
27 National Governor’s Association Learning Lab on New Utility Business Models,
28 Midwest Governors’ Association, and the Minnesota e21 Initiative working group.

29 I have sponsored testimony before the Newfoundland and Labrador Board of
30 Commissioners of Public Utilities, the Georgia Public Service Commission, the Rhode
31 Island Public Utilities Commission, the Public Service Commission of Maryland, the
32 Massachusetts Department of Public Utilities, the Maine Public Utilities Commission, the
33 Public Utilities Commission of New Hampshire, the California Public Utilities
34 Commission, the Hawaii Public Utilities Commission, the Public Service Commission of
35 Utah, the Public Utility Commission of Texas, the Virginia State Corporation
36 Commission, and the Federal Energy Regulatory Commission. I hold a Master of Arts in
37 Agricultural and Applied Economics and a Master of Science in Environment and
38 Resources, both from the University of Wisconsin-Madison. My resume is attached as
39 Exhibit AG 1.1.

40 **Mr. Havumaki:** I have five years of experience in the energy field. At Synapse, I focus
41 on ratemaking, rate design, performance-based regulation, and related regulatory issues. I

42 am also regularly engaged in macroeconomic modeling and benefit-cost analysis (BCA).
43 Prior to being hired by Synapse, I worked for the World Bank on a consulting team that
44 authored a field manual on cost-benefit analysis for practitioners in the developing world.
45 I have sponsored testimony before the Public Utilities Commission of New Hampshire,
46 the Georgia Public Service Commission, and the Rhode Island Public Utilities
47 Commission. I hold a Master of Arts in Applied Economics from the University of
48 Massachusetts. My resume is attached as Exhibit AG 1.2.

49 **Q. On whose behalf are you testifying in this case?**

50 A. We are testifying on behalf of the People of the State of Illinois represented by the Office
51 of the Attorney General (“AG”).

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

53 A. The purpose of our testimony is to address the performance incentive mechanisms (PIMs)
54 and tracking metrics proposed by Commonwealth Edison Company (“ComEd”).

55 **Q. What materials did you rely on to develop your testimony?**

56 A. The sources for our testimony and exhibits are the Company’s direct and revised direct
57 testimony and exhibits, public documents, and responses to discovery requests, as well as
58 our personal knowledge and experience.

59 **Q. Were these exhibits prepared by you or under your direction?**

60 A. Yes. Our testimony and the accompanying exhibits were prepared by us or under our
61 direct supervision and control.

62 **II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

63 **Q. Do you support the Company's PIMs and tracking metrics proposals?**

64 A. While there are elements of the Company's proposal that we support, we have major
65 concerns with the overall filing and recommend significant modifications.

66 **Q. Please summarize your concerns with the Company's PBR proposals in the current**
67 **form.**

68 A. Briefly, and as discussed in more detail below, we cannot support the Company's overall
69 proposal because it does not further the statutory policies and requirements of Section 16-
70 108.18 of the Public Utilities Act. The flaws in the Company's proposals include:

- 71 1. The Company has not articulated what specific incentive issues its proposed PIMs
72 address, why they are needed, how they improve performance over the status quo,
73 or how they will function in the context of a future multi-year rate plan (MRP).
- 74 2. The Company has not provided any anticipated direct costs or benefit-cost
75 analyses to support the cost-effectiveness of the proposed PIMs.
- 76 3. Some of the proposed PIMs focus on undertaking specific types of actions and
77 investments, rather than on achieving meaningful outcomes.
- 78 4. Overall, the proposed set of PIMs may result in greater spending than is required
79 to achieve the goals of Section 16-108.18 and will likely further erode
80 affordability.

81 **Q. Please summarize your recommendations.**

82 A. A. We recommend the following:

- 83 1. The Commission should not approve any of ComEd’s proposed PIMs without a
84 benefit-cost analysis, and it should direct ComEd to produce a benefit-cost
85 analysis before any PIMs are ultimately adopted.
- 86 2. The Commission should reject individual proposed PIMs that are not cost-
87 effective, do not provide meaningful customer benefits, or duplicate existing
88 regulatory or statutory incentives.
- 89 3. The Commission should not limit itself to considering the PIMs proposed by the
90 Company, but it should rather evaluate all of the proposals in this docket and
91 adopt the PIMs that best further the statutory and regulatory policies that gave rise
92 to this docket.
- 93 4. Regarding the reliability PIMs proposed by the Company, we recommend that the
94 Commission:
- 95 a. PIMs for reliability should generally be implemented on a penalty-only
96 basis.
- 97 b. Reliability improvements should be targeted selectively in areas of high
98 need, including in environmental justice and equity investment eligible
99 communities.
- 100 c. Eliminate the SAIDI PIM, as it is unnecessary and unlikely to maximize
101 net benefits to customers. However, if the Commission elects to approve a
102 SAIDI PIM, we recommend that the PIM be made penalty-only and be
103 reformulated so that it tracks performance on a zonal basis to both insure

104 that areas with better SAIDI performance do not backslide, and that areas
105 with worse SAIDI performance improve.

106 d. Reformulate the proposed Minimum Service PIM so that it is penalty-only
107 and tracks performance levels for just EJ and equity investment eligible
108 communities.

109 e. Eliminate the System Visibility PIM, as it is unnecessary and is unlikely to
110 result in net benefits to customers.

111 5. Given that this is the first set of PIMs under the new law and the new multi-year
112 rate plan and the lack of data available to evaluate net benefits, if the Commission
113 approves PIMs in the absence of cost and benefit information, the Commission
114 should reduce the total earning opportunity for the PIMs portfolio to no more than
115 20 basis points.

116 **III. REGULATORY CONTEXT**

117 **Section 16-108.18 of the Public Utilities Act**

118 **Q. What is the regulatory context for ComEd's proposed PIMs and tracking metrics?**

119 A. In Section 16-108.18 of the Public Utilities Act,¹ the General Assembly states its
120 objective to better align utility, customer, community, and environmental goals through a
121 new performance-based ratemaking structure.² Although performance incentives and a

¹ 220 ILCS 5/16-108.18.

² 220 ILCS 5/16-108.18(a)(3).

122 performance-based formula rate were implemented under the Energy Infrastructure

123 Modernization Act (EIMA), the General Assembly states that:

- 124 • The performance measures under EIMA “have **not been sufficiently**
125 **transformative** in urgently moving electric utilities toward the State's
126 ambitious energy policy goals [emphasis added],”³ and
127 • “may have resulted in excess utility spending and guaranteed profits
128 without meaningful improvements in customer experience, rate
129 **affordability, or equity** [emphasis added].”⁴

130 To address these issues, the General Assembly directed a transition to a “comprehensive
131 performance-based regulation framework” to “effectively and efficiently achieve current
132 and anticipated future energy needs of this State, while ensuring affordability for
133 consumers.”⁵

134 **Q. What is performance-based regulation (PBR)?**

135 A. Performance-based regulation is a departure from traditional cost of service regulation
136 intended to create different incentives for the regulated utility to improve its performance.
137 As described by the Vermont Public Utilities Commission in 1996, PBR “encourages
138 companies to reduce their costs over time, by providing profit incentives to stimulate

³ 220 ILCS 5/16-108.18(a)(4) (emphasis added).

⁴ 220 ILCS 5/16-108.18(a)(6) (emphasis added).

⁵ 220 ILCS 5/16-108.18(a)(8)

139 innovation, efficiency, and service quality improvements.” PBR generally consists of
140 both PIMs and MRPs, and it may also include a suite of tracking metrics.⁶

141 **Q. Please define what you mean by PIMs and tracking metrics.**

142 A. A performance incentive mechanism, as defined by statute, is “an instrument by which
143 utility performance is incentivized, which could include a monetary performance
144 incentive,” while a performance metric is “a manner of measurement for a particular
145 utility activity.”⁷ In other words, PIMs are sets of performance metrics with targets and
146 (typically) associated financial implications for meeting or failing to meet a target. PIMs
147 can serve as a useful regulatory mechanism to positively influence utility behavior to
148 advance energy policy goals that are not directly aligned with a distribution company’s
149 public service obligations or existing financial incentives.

150 Tracking metrics are used to collect and monitor data for the purpose of measuring and
151 reporting utility performance and for establishing future performance metrics.⁸

152 **Q. Please define what you mean by an MRP.**

153 A. Typically, MRPs divorce a utility’s revenues from its actual costs for a set period of time
154 (the “stay-out period” between rate cases). During this stay-out period, utilities have an
155 opportunity to enhance profits by reducing their costs. However, this potential

⁶ Vermont Public Service Board. Report and Order. Docket No. 5854, Investigation into the Restructuring of the Electric Utility Industry in Vermont. December 31, 1996, page 36. Available at <https://puc.vermont.gov/sites/psbnew/files/orders/1996/5854RPT.pdf>.

⁷ 220 ILCS 5/16-108.18(b)

⁸ 220 ILCS 5/16-108.18(e)(3).

156 shareholder benefit is traditionally balanced by prohibiting the utility from filing another
157 rate case if its costs exceed its revenues during the stay-out period. In this way, MRPs can
158 incentivize the utility to pursue greater cost efficiencies.⁹

159 However, not all MRPs operate in this manner. In some jurisdictions, revenues may be
160 adjusted upward or downward to follow actual costs more closely. Although this provides
161 immediate benefits for customers in instances where the utility's costs are less than its
162 allowed revenue, it also erodes the utility's cost containment incentives, since the utility
163 no longer benefits from cost reductions. Further, if an MRP allows revenues to increase
164 when costs increase, the utility has less incentive to control costs, since cost overruns do
165 not impact the utility's profits. This is the case with the MRP structure outlined in Section
166 16-108.18 of the Public Utilities Act.

167 **Q. Does the MRP outlined in Section 16-108.18 provide adequate utility cost**
168 **containment incentives?**

169 A. No, for several reasons. First, the MRP framework establishes annual rates based on
170 utility cost forecasts.¹⁰ This exacerbates information asymmetries, since the utilities
171 always have the most technical knowledge and information regarding their systems,
172 creating significant challenges for regulators to ensure that cost forecasts are reasonable.
173 As explained by the National Regulatory Research Institute:

174 "Information asymmetry reflects the relatively less knowledge that a
175 regulator has (relative to the utility's) on the correlation between forecasted

⁹ It is worth noting that some of the same incentives inherent in an MRP may also be present in traditional cost-of-service regulation. For example, under the traditional cost-based approach, the utility benefits by retaining additional earnings resulting from cost savings achieved between rate cases.

¹⁰ 220 ILCS 5/16-108.18(d)(3)(A).

176 costs and utility-management competence. When a utility files a cost
177 forecast, how does the regulator know whether it reflects competent
178 management? The analyst or auditor can evaluate the forecast applying
179 state-of-the-art techniques; still, however, a level of uncertainty remains that
180 leaves unknown the utility’s level of managerial competence embedded in
181 the forecast.”¹¹

182 Due to the fact that regulators and stakeholders can never completely vet the accuracy of
183 forecasts, utilities have an inherent bias to overstate their costs and understate revenues.
184 This bias has been well-recognized by commissions and by organizations such as the
185 National Regulatory Research Institute (NRRI). The bias exists because utilities are
186 allowed a profit on their investments, and so have an incentive to add to rate base,¹² and
187 because there is little advantage for a utility that underestimates costs since overruns may

¹¹ Costello, K, 2016, *Multiyear Rate Plans and the Public Interest*, National Regulatory Research Institute, pages 35–36.

¹² Regulated utilities earn a return on capital investments. When a utility’s rate of return is greater than the cost of borrowing, utilities have a financial incentive to maximize their capital expenditures in order to increase rate base and thereby increase profits. This is often referred to as the Averch-Johnson effect. As the Federal Communications Commission observed in a 1989 Order:

Unfortunately, rate of return regulation's greatest strength is also its greatest weakness. As we have previously observed, absolute up-front profit constraints, expressed as a prescribed percentage of allowed earnings on investment, do not prevent carriers from increasing their absolute amount of earnings. ***By expanding its rate base in the course of making investment decisions regarding its regulated activities, a rate of return regulated firm can increase its profits without any change in the allowed rate of return. This phenomenon***, known as the Averch-Johnson effect, ***encourages carriers to make inefficient investment decisions***. Furthermore, rate of return does nothing to encourage carriers to limit expenses, since carrier expenses are flowed directly through to revenue requirements, a phenomenon known as “X-inefficiency.”

Federal Communications Commission, *I/M/O Policy and Rules Concerning Rates for Dominant Carriers*, FCC Docket No. 87-313, FCC 89-91, 4 FCC Rcd 2873 at para. 77 (April 17, 1989)(citations omitted)(emphasis added); See also Harvey Averch and Leland L. Johnson, “Behavior of the Firm Under Regulatory Constraint,” *American Economic Review*, Vol. 52, No. 5 at 1052-1069 (Dec. 1962).

188 jeopardize its rate of return and lower profits for shareholders.¹³ Thus, cost forecasts are
189 likely to be higher than necessary.

190 Second, the MRP framework outlined in the statute requires that the utility's actual
191 revenue requirement be adjusted annually to incorporate actual costs, subject to a cap of
192 105% of the utility's approved forecasted costs (excluding storm costs, new business,
193 investment timing changes, pension/OPEB costs, and changes in interest rates).¹⁴ This
194 removes much of the utility's incentive to seek cost efficiencies since the utility no longer
195 benefits from the cost efficiencies it creates. At the same time, it reduces the incentive to
196 constrain spending relative to a firm cap on multi-year revenue requirements.

197 Finally, the cap on upward adjustments to the utility's annual revenue requirement is not
198 a hard cap, as the utility can petition the Commission for rate increases above this
199 threshold.¹⁵ Thus, there could be substantially greater adjustments to the utility's annual
200 revenue requirement than allowed in the MRP to reflect changes in costs under the
201 Illinois MRP than under a more standard MRP model.

202 **Q. How does the framework of the MRP relate to the instant proceeding?**

203 A. PIMs should be designed to work in tandem with the overall cost recovery framework by
204 addressing gaps or balancing any undesirable incentives in the regulatory framework. In
205 this case, the MRP framework provides little in the way of meaningful cost containment

¹³ *I/M/O Policy and Rules Concerning Rates for Dominant Carriers*, FCC Docket No. 86-313 at 36.

¹⁴ 220 ILCS 5/16-108.18(d)(6)(A).

¹⁵ 220 ILCS 5/16-108.18(d)(15).

206 incentives for the reasons identified above. Thus, it is even more important that PIMs
207 promote cost efficiencies to help promote rate affordability and equity.

208 **Q. What are the downsides for customers if PIMs are not designed to work in tandem**
209 **with an MRP?**

210 A. Poorly designed PIMs may amplify problematic incentives that are embedded in the
211 ratemaking framework. As we noted above, the MRP framework established by Section
212 16-108.18 is unlikely to provide meaningful cost control incentives. ComEd's proposed
213 PIMs could exacerbate this problem by providing additional incentives for grid
214 investment (increasing the Company's net income or revenues payable to investors), and
215 by signaling that any such investment is likely to be viewed favorably by the
216 Commission. Given that ComEd has made substantial investments in its grid over the
217 past decade, including investing more than \$2.5 billion collectively in reliability-related
218 investments and smart grid-related investments,¹⁶ we are concerned that the additional
219 incentives in the Company's proposed PIMs would needlessly encourage specific,
220 additional spending.

221 **Principles for PIMs**

222 **Q. What principles should be followed when designing or assessing PIMs?**

223 A. Well-designed PIMs can encourage greater alignment between utility and customer
224 interests, allowing both parties to benefit. However, poorly designed PIMs run the risk of
225 encouraging unnecessary spending and handing utilities increased profits while failing to

¹⁶ Commonwealth Edison Company's Infrastructure Investment Plan. 2020 Annual Update. April 1, 2021, page 10.

226 produce meaningful benefits to customers. To protect the public interest, performance
227 incentive mechanisms should generally comport with the following principles:

- 228 1. Promote achievement of state energy policy goals, including affordability
229 objectives, and provide policy benefits that exceed what is expected under
230 status quo operations.
- 231 2. Provide a positive financial incentive only for outcomes that would not have
232 been achieved in the absence of the PIM.
- 233 3. Be grounded in rigorous benefit-cost analyses that demonstrate net benefits to
234 customers.
- 235 4. Reward outcomes, rather than only rewarding investments or other actions.
- 236 5. Comply with the specific requirements of the statute.

237 These principles are generally consistent with those that were developed through the
238 Commission's Performance and Tracking Metrics Workshop and comment process,
239 which are summarized in the December 1, 2021 report to the Commission.¹⁷

¹⁷ Performance and Tracking Metrics Workshop Summary: Report to the Commission. Co-authored with Rocky Mountain Institute. December 1, 2021, page 5.

240 **Q. Your first principle is that PIMs should promote achievement of state energy policy**
241 **goals. What specific policy goals should PIMs promote in Illinois?**

242 A. The General Assembly listed nine specific objectives in Section 16-108.18(c) of the
243 Public Utilities Act, ranging from reliability and resiliency to supplier diversity. Notably,
244 eight out of nine of the objectives specifically identify either equity or affordability¹⁸
245 issues, indicating that affordability and equity should be paramount when evaluating
246 whether a PIM promotes policy objectives. The relevant text from Section 16-108.18(c)
247 is quoted below, with annotations highlighting equity and affordability.

- 248 (1) maintain and improve service reliability and safety, including and particularly in
249 environmental justice, low-income and equity investment eligible communities;
- 250 (2) decarbonize utility systems at a pace that meets or exceeds State climate goals,
251 while also ensuring the affordability of rates for all customers, including low-
252 income customers;
- 253 (3) direct electric utilities to make cost-effective investments that support
254 achievement of Illinois' clean energy policies, including, at a minimum,
255 investments designed to integrate distributed energy resources, comply with
256 critical infrastructure protection standards, plans, and industry best practices, and
257 support and take advantage of potential benefits from the electric vehicle charging
258 and other electrification, while mitigating the impacts;
- 259 (4) choose cost-effective assets and services, whether utility-supplied or through
260 third-party contracting, considering both economic and environmental costs and
261 the effects on utility rates, to deliver high-quality service to customers at least
262 cost;

¹⁸ We include the term “cost-effectiveness” as an indication of affordability.

- 263 (5) maintain the affordability of electric delivery services for all customers, including
264 low-income customers;
- 265 (6) maintain and grow a diverse workforce, diverse supplier procurement base and,
266 for relevant programs, diverse approved-vendor pools, including increased
267 opportunities for minority-owned, female-owned, veteran-owned, and disability-
268 owned business enterprises;
- 269 (7) improve customer service performance and engagement;
- 270 (8) address the particular burdens faced by consumers in environmental justice and
271 equity investment eligible communities, including shareholder, consumer, and
272 publicly funded bill payment assistance and credit and collection policies, and
273 ensure equitable disconnections, late fees, or arrearages as a result of utility credit
274 and collection practices, which may include consideration of impact by zip code;
275 and
- 276 (9) implement or otherwise enhance current supplier diversity programs to increase
277 diverse contractor participation in professional services, subcontracting, and
278 prime contracting opportunities with programs that address barriers to access.
279 Supplier diversity programs shall address specific barriers related to RFP and
280 contract access, access to capital, information technology and cyber security
281 access and costs, administrative burdens, and quality control with specific
282 metrics, outcomes, and demographic data reported.

283 **Q. Please explain the principle that PIMs should only reward outcomes that would not**
284 **have been achieved in the absence of the PIM.**

285 A. As discussed above, a key objective of Section 16-108.18 is to ensure affordability and
286 cost-effectiveness. If a utility is rewarded for something that it would have achieved
287 without the PIM, then the PIM does nothing to enhance performance, while increasing
288 costs for ratepayers since they are paying more for what they would have received
289 anyway. Thus, as indicated in the statute, a PIM must be “designed to achieve

290 incremental improvements over baseline performance values and targets,”¹⁹ and a reward
291 should not be provided if it is not necessary, since doing so would not achieve policy
292 objectives in a least-cost manner.²⁰

293 **Q. Please explain why a PIM should be grounded in rigorous benefit-cost analysis.**

294 A. As illustrated in the objectives listed in Section 16-108.18(c) of the Public Utilities Act,
295 affordability and cost-effectiveness must be prioritized in the implementation of PBR in
296 Illinois. Without rigorous benefit-cost analysis, it is impossible to determine whether the
297 benefits of utility investments or actions will outweigh their costs. Yet despite the
298 statute’s emphasis on cost-effective achievement of outcomes, ComEd has not provided
299 any benefit-cost analysis in support of its proposed PIMs.

300 **Q. Is ComEd’s failure to provide a rigorous benefit-cost analysis for its PIMs**
301 **concerning?**

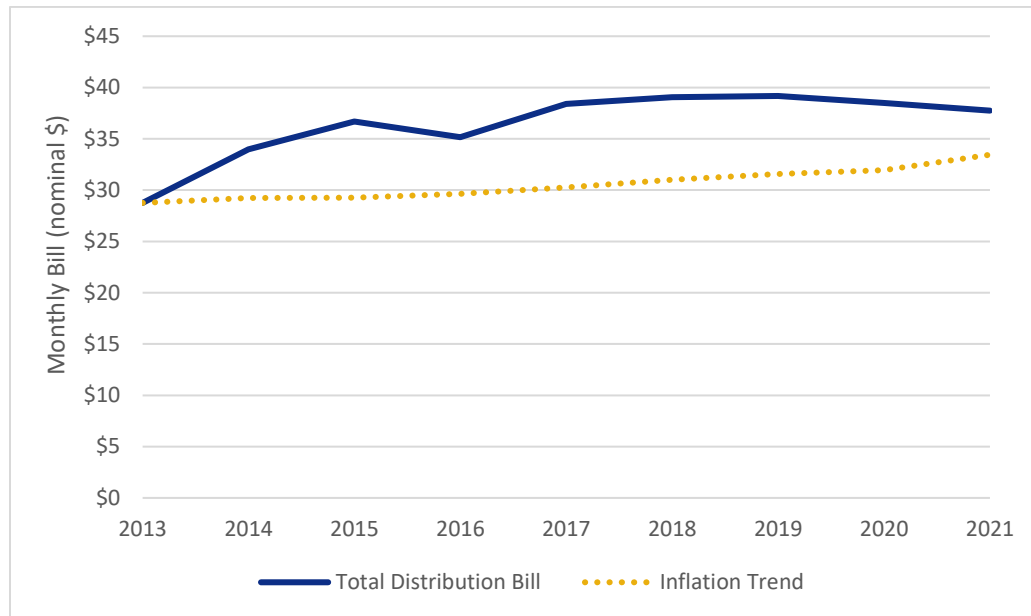
302 A. Yes. The lack of benefit-cost analysis is of particular concern, given that ComEd’s
303 distribution costs have been rising much more rapidly than inflation, as shown in Figure
304 1, below. The solid line in Figure 1 shows the average distribution bill for residential
305 customers. The dotted line shows the trend in inflation. The divergence between the two
306 lines shows that ComEd’s distribution costs increased rapidly from 2014 to 2017 and
307 have remained well above the inflation trend line since.

¹⁹ 220 ILCS 5/16-108.18(e)(2).

²⁰ The statute explicitly requires that the Commission consider “[t]he extent to which the amount [of performance incentive] is likely to encourage the utility to achieve the performance target in the least cost manner.” If a reward is provided where none was needed, the performance target is no longer being achieved in the least cost manner.

308

Figure 1. Actual residential distribution delivery bill and inflation trend, 2013-2021²¹



309

310

Although investments under EIMA and other initiatives have provided some benefits to customers, without a rigorous benefit-cost analysis, it is far from certain that continued aggressive levels of investment will maximize net benefits to customers.

311

312

313 **Q. Did ComEd include the costs associated with its proposed PIMs?**

314 A. No. ComEd did not provide any information about the costs to implement its proposed
315 PIMs. When asked for the estimated cost to implement ComEd’s proposed PIMs,
316 ComEd stated that it had not estimated the associated costs. We estimate that each PIM
317 basis point incentive is equivalent to approximately \$818,460, inclusive of taxes and

²¹ Total distribution bill is for the Residential Non-Electric Space Heating rate class. This bill is calculated from the product of the average monthly consumption and the sum of the distribution facilities charge and the Illinois electricity distribution tax (IEDT), plus the customer charge, plus the standard metering charge. Average customer consumption is calculated using residential class aggregate data from EIA 861. The inflation trend reflects the total distribution bill for 2013, escalated at the rate of inflation as given by the consumer price index (CPI). CPI data is sourced from the Federal Reserve Bank of St. Louis. See FRED.org.

318 other ratemaking adjustments, and that the total portfolio proposed by the Company is
319 worth about \$49.1 million.²² The Company is also likely to increase spending in pursuit
320 of PIM targets, further increasing its earnings and the costs that would ultimately be
321 passed on to ratepayers.²³

322 **Q. Why do you propose that PIMs reward outcomes, rather than investments or other**
323 **actions?**

324 A. There are several reasons why measuring outcomes rather than investments or other
325 actions is important.

- 326 • First, it holds the utility accountable for ensuring that the actions or
327 investments it makes produce beneficial results.
- 328 • Second, the utility already earns a return on capital investments, which is
329 typically sufficient incentive to undertake beneficial investments,
330 particularly when the utility receives accelerated cost recovery through a
331 multi-year rate plan.
- 332 • Finally, the language contained in Section 16-108.18 specifically focuses
333 on outcomes, directing the Commission to:

²² See, e.g., ComEd Response to AG 1.04_SUPP Attach 3, where the Company calculates the revenue effect of different potential incentive or penalty levels expressed in basis points.

²³ Changes in capital structure and changes in rate base could result in a different basis point conversion rate. Were the Company to increase its overall rate base in pursuit of incentive earnings, the total value of potential incentives would also increase.

- 334 ○ approve performance metrics that “encourage cost-effective, equitable
335 utility achievement of the outcomes described in [subsection (e)]”²⁴ and
336 ○ “measure outcomes and actual, rather than projected, results where
337 possible.”²⁵

338 **Q. What specific requirements in the statute must PIMs meet?**

339 A. Section 16-108.18(e)(2) includes multiple requirements for PIMs, including the
340 categories of utility performance that PIMs must address, the maximum and minimum
341 eligible basis points, and requirements for ensuring equitable benefits to environmental
342 justice and equity investment eligible communities. This section of the statute also
343 establishes that PIMs should achieve outcomes *cost effectively*. The Commission should
344 not approve PIMs that do not meet the requirements in this section of the statute.

345 **Utilities Must Conduct Benefit-Cost Analyses of Proposed PIMs**

346 **Q. How should the Commission ensure that performance metrics “encourage cost-**
347 **effective, equitable utility achievement of the outcomes described in [subsection**
348 **(e)]”?**²⁶

349 A. To promote affordability and cost-effective achievement of the statute’s goals, utilities
350 should be required to put forward rigorous, balanced, and transparent benefit-cost
351 analyses in support of all proposed PIMs. These benefit-cost analyses should account for
352 all costs that will be borne by ratepayers, including investments and other spending

²⁴ 220 ILCS 5/16-108.18(e)(2)

²⁵ 220 ILCS 5/16-108.18(e)(2)(D).

²⁶ 220 ILCS 5/16-108.18(e)(2)

353 expected to achieve the PIM, as well as the cost of any positive performance incentive. In
354 addition, distributional and equity impacts should be considered.²⁷

355 **Q. Has the Company conducted benefit-cost analysis for its proposed PIMs?**

356 A. No. The Company states that it has not performed a “quantitative net benefit analysis” yet
357 because of “significant design (methodology) questions and practical challenges” and
358 because it is waiting for the Commission to establish a “performance metrics ‘net
359 benefits’ calculation methodology” first.²⁸

360 **Q. Should the Company await direction from the Commission prior to conducting a**
361 **benefit-cost analysis?**

362 A. No. The Company should have included as much information as possible on the costs and
363 benefits of its proposed PIMs in its petition. The fact that the Commission has yet to
364 establish a benefit-cost methodology should not preclude the Company from providing
365 the information that it does have. Without any information on benefits and costs, it is
366 unclear how the Commission can act on the statutory directive to “approve, based on the
367 *substantial evidence proffered* in the proceeding initiated pursuant to this subsection
368 performance metrics that, to the extent practicable and achievable by the utility,
369 encourage *cost effective*, equitable achievement of the outcomes described in this
370 subsection [emphasis added].”²⁹

²⁷ That is, attention should be paid to which types of customers are likely to reap the benefits of an investment relative to the customers that will pay for the investment.

²⁸ ComEd response to Staff 1.01.

²⁹ Section 220 ILCS 516-108.18(e)(2)(F)

371 **Q. What information has the Company provided regarding the costs and benefits of its**
372 **proposed PIMs?**

373 A. While the Company does discuss some of the benefits that it anticipates and possible
374 methods for quantifying the benefits, no quantitative analysis has yet been conducted.³⁰
375 More concerning still, the Company has not estimated the costs associated with achieving
376 its proposed PIM targets, although the Company expects that “with respect to Metrics 1,
377 2, and 3, achieving a higher level of performance than the baselines will require
378 incremental costs; and Metrics 4, 5, 6, 7, and 8 might require incremental costs.”³¹

379 **Q. Does the information provided indicate that the Company’s PIMs will promote the**
380 **cost-effective achievement of state energy policy goals?**

381 A. No, the data provided by the Company is fully inadequate for assessing whether the
382 Company’s proposal will promote the cost-effective achievement of energy policy goals.

383 **Q. Should the Commission approve PIMs without information regarding their cost-**
384 **effectiveness?**

385 A. No. Given the statute’s emphasis on affordability and cost-effectiveness, the Commission
386 should not approve PIMs for which the costs and benefits have not been thoroughly
387 evaluated. This is particularly true for PIMs on which the Company proposes to earn a
388 reward, which would enable the Company to increase its profits at ratepayer expense,
389 without demonstrating that it is providing net benefits to customers.

390 However, if the Commission chooses to approve one or more PIMs for ComEd, we
391 recommend that ComEd provide sufficient information to assess whether a PIM targeted

³⁰ ComEd response to Staff 1.01.

³¹ *Id.*

392 to environmental justice and equity investment eligible communities would benefit those
393 communities and be cost-effective.

394 **IV. COMED'S PROPOSED PIMS**

395 **Summary of ComEd's PIMs Proposal**

396 **Q. What PIMs has ComEd proposed?**

397 A. ComEd has proposed the following eight performance incentive mechanisms:

- 398 1) System Average Interruption Duration Index (SAIDI)
399 2) Customers Exceeding Minimum Service Levels of Reliability or Resiliency
400 3) System Visibility Index
401 4) Load Reduction Capability
402 5) Supplier Diversity
403 6) Percent of Customers with an Arrearage over 90 Days
404 7) Interconnection Timeliness
405 8) First Contact Resolution.

406 We do not address all of these PIMs in our testimony. Instead we focus on the first three
407 PIMs, which are all proposed for the Reliability and Resiliency performance area. We
408 expect that other intervenors will provide analysis and alternatives to other PIMs, and our
409 silence on other PIMs does not indicate that we agree with or support ComEd's
410 proposals.

411 **SAIDI PIM (Number 1)**

412 **Q. Please describe ComEd's SAIDI PIM.**

413 A. ComEd's proposed SAIDI PIM targets a system-wide SAIDI improvement of 1.5% each
414 year. The Company proposes to set its baseline for this PIM using reliability performance
415 data for the period 2021-2023, and to provide a symmetrical incentive/penalty worth up
416 to fifteen basis points – a quarter of the total value of its proposed PIMs portfolio.³²

417 **Q. Do you have concerns with this PIM?**

418 A. Yes. Our primary issue is that we do not support a financial reward for improvements in
419 SAIDI, as explained more below. We also have serious concerns regarding the
420 Company's proposed approach to setting a baseline and targets, since the baseline would
421 use performance data that have not yet been collected and could be subject to gaming.³³

422 **Q. Please explain why you do not support a financial reward for SAIDI improvements.**

423 A. We oppose financial rewards for SAIDI improvements for several reasons.

- 424 • First, maintaining adequate reliability is a core obligation of the utility. Where a
425 utility fails to meet this core obligation, penalties may be appropriate. However,
426 rewards for delivering on a core obligation, particularly when the utility already
427 recovers the cost of reliability investments with a return and little or no
428 regulatory lag, should be avoided.

³² ComEd Exhibit 2.0 at 4-5.

³³ That is, the Company could purposefully slow SAIDI improvements for 2022-2024 in order to establish a less stringent baseline.

- 429 • Second, financial rewards should only be provided to incent behavior the utility
430 would otherwise not take, meaning there is a disincentive or lack of incentive to
431 achieve the desired outcome. Given the return that the utility receives on
432 reliability investments and the expedited cost recovery that the MRP would
433 provide, we do not believe that any additional incentives through this PIM are
434 required to encourage reliability investments.
- 435 • Third, financial rewards should only be provided for significant achievements.
436 The Company has proposed to target improvements of 1.5% per year. This is
437 quite trivial relative to the Company’s recent reliability performance
438 improvements, and it is also only marginally more ambitious than the 1%
439 improvement that the Company anticipates absent performance incentives.³⁴
- 440 • Fourth, the Company’s performance targets have not been designed to benefit
441 customers most in need of reliability improvements; the Company’s reliability
442 performance is highly variable across its four operating districts or zones, yet the
443 proposed PIM would only target overall improvements in SAIDI and not
444 improvements in worst performing zones.
- 445 • Finally, the Company has not demonstrated that this proposed PIM is likely to
446 advance affordability and equity.

³⁴ ComEd response to AG 1.03.

447 **Q. Please explain why core utility obligations should not be rewarded.**

448 A. Reliability is a core responsibility for electric utilities, and the Company already has
449 incentives (through a return on investment and expedited cost recovery) to continue
450 investing in its system. Thus, in other jurisdictions, reliability is generally incentivized
451 through penalties for failing to meet a standard, rather than through rewards. As
452 discussed in an article published in the *Electricity Journal*,³⁵ historically most
453 performance measures in PBR plans focused on minimum standards of performance to
454 ensure that cost-cutting measures did not erode utility performance quality. For this
455 reason, performance metrics primarily established standards below which the electric
456 company could be financially penalized, as opposed to rewarding utilities for improved
457 performance.³⁶ This approach is consistent with the existing reliability performance
458 statute in Illinois, which currently includes a 7 basis point penalty for failure to perform.³⁷

459 **Q. Why do you believe that additional incentives are not required to incentivize the**
460 **utility to make reliability investments?**

461 A. As noted above, the utility already receives a return on capital investments. Further, the
462 multi-year rate plan framework prescribed by statute is based on the utility's investment
463 forecast, which avoids regulatory lag inherent in traditional ratemaking. The combination
464 of a return on equity and accelerated cost recovery through the MRP should provide more
465 than adequate incentive to undertake reliability-related investments. Additional incentives

³⁵ Ron Davis, "Acting on Performance-Based Regulation," *The Electricity Journal*, May 2000,
http://regulationbodyofknowledge.org/wp-content/uploads/2013/03/Davis_Acting_on_Performance.pdf.

³⁶ *Id.*

³⁷ 220 ILCS 5/16-108.5(f-5)(1)(a).

466 are likely to result in inefficient levels of investment, resulting in higher costs to
467 ratepayers.

468 The utility's existing incentives to undertake reliability-related investments are especially
469 evident given that ComEd invested heavily in system improvements in recent years under
470 a penalty-only structure. From 2011-2020, total electric distribution plant in service
471 increased from about \$13.6 billion³⁸ to around \$22.4 billion.³⁹ Improvements in reliability
472 should be expected from this level of spending.

473 **Q. Does the Company plan to continue with significant spending on its distribution**
474 **system?**

475 A. It does. The Company forecasts continued high levels of investments into the future, with
476 projected total distribution investment during the MRP to be \$2.02 billion, \$1.776 billion,
477 \$1.881 and \$2.192 billion for 2023, 2024, 2025 and 2026, respectively.⁴⁰

478 **Q. Please explain your concern that the Company's PIM does not target significant**
479 **achievements.**

480 A. ComEd's reported systemwide SAIDI without major event days fell from about 73 in
481 2011 to about 35 in 2021, an improvement of about 52%. This improvement has been
482 relatively continuous over these years, with SAIDI values trending downward by more
483 than 8% per year on average, as shown in Table 1. The Company should be commended

³⁸ 2011 Self Assessment 2011 - Commonwealth Edison Company: Reliability Assessment Report & Customer Satisfaction Survey. Section G. Table 14. May 2011.

³⁹ 2020 Commonwealth Edison: Electric Reliability Report & Customer Satisfaction Survey. Section G. Table 14. April 1, 2021.

⁴⁰ See ComEd Capital Investments Proposal at page 65, available at: <https://www.icc.illinois.gov/informal-processes/multi-year-integrated-grid-plan-workshops>

484 for achieving these improvements, but they highlight the fact that the proposed PIM
485 targets are likely to be achieved with little additional effort.⁴¹

486

487 **Table 1. ComEd System-wide SAIDI (excluding MEDs)⁴²**

Year	SAIDI
2011	73.0
2012	74.0
2013	62.0
2014	68.0
2015	64.0
2016	53.0
2017	45.0
2018	49.0
2019	43.0
2020	32.0
2021	35.0

488

489 **Q. Why do you claim that the Company has not demonstrated that its proposed PIMs**
490 **are likely to advance affordability and equity?**

491 A. To demonstrate the cost-effectiveness of a PIM, both the costs and the benefits must be
492 quantified. However, ComEd admitted that it has not determined what the anticipated
493 costs of achieving its proposed SAIDI targets would be.⁴³ While the Company stated that

⁴¹ Over the period 2013-2021, the Company also far exceeded its reliability performance improvement targets for SAIFI and CAIDI. See Commonwealth Edison Company's Multi-Year Performance Metrics Annual Report for the Year Ending December 31, 2020. April 16, 2021, pages 6-8.

⁴² ComEd response to AG 1.03.

⁴³ *Id.*

494 it has quantified reliability benefits and references the ICE calculator as a tool for valuing
495 improved reliability, it has not put forward an estimate of the incremental benefit
496 expected from its SAIDI PIM.⁴⁴

497

498 **Q. Are the costs of achieving additional reliability improvements likely to mirror**
499 **historical costs?**

500 A. Not necessarily. Additional reliability improvements are likely to become increasingly
501 costly due to the phenomenon of diminishing returns to scale. Assuming that the
502 Company has efficiently invested in reliability improvements in the past, it would follow
503 that the Company's earlier investments already targeted the lowest cost and easiest
504 solutions. Thus, it is likely that continued improvements in reliability will become
505 costlier to achieve as the Company is completing a ten-year investment that included
506 significant reliability investments.⁴⁵ Indeed, the Company recognizes this reality, stating
507 that "[m]eeting ever-high (sic) customer requirements and expectations of reliability and
508 resilience naturally can be anticipated to require the application of greater resources,
509 especially for a utility that already has achieved high reliability, such as ComEd."⁴⁶

510 While it is desirable to have reliable service, this aim must be balanced with the
511 affordability of utility rates. Moreover, ComEd's reliability performance already

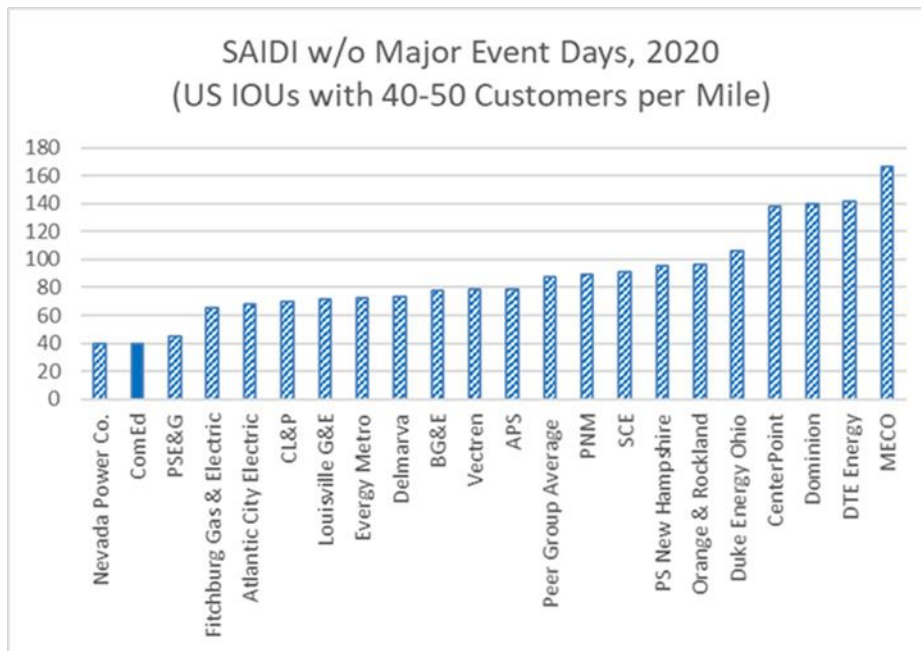
⁴⁴ ComEd response to AG 2.05 and ComEd response to Staff 1.01.

⁴⁵ See <https://icc.illinois.gov/industry-reports/ComEd-infrastructure-investment-plans> 2021 investment report, Attachment 2 investment detail p. 8-11

⁴⁶ ComEd response to Staff 1.01

512 compares favorably with peer utilities – placing second among a sample of IOUs with
513 similarly dense service territories, as shown in Figure 2, below.

514 **Figure 2. SAIDI for ComEd and other utilities with similarly dense service territories.⁴⁷**



515

516

517 **Q. How have the Company’s recent distribution system investments impacted rates?**

518 A. ComEd’s investments have contributed to the increase in distribution rates in recent
519 years. As we noted earlier, the Company’s distribution rates have risen far faster than the
520 rate of inflation since 2013 – a period coinciding with significant grid investment.

521 **Q. What do you recommend regarding ComEd’s proposed SAIDI PIM?**

522 A. For the reasons discussed above, we do not recommend that improvements in system-
523 wide reliability be further incentivized. However, if the Commission elects to approve a

⁴⁷ People’s Presentation to ICC Grid Plan Workshop. March 1, 2022. Slide 11.

524 SAIDI PIM, we recommend that the PIM be redesigned to target areas of high need and
525 be made penalty-only.

526 **Q. Please explain your recommendation that a reliability PIM, should one be adopted,**
527 **be targeted to areas of high need.**

528 A. A more targeted approach to reliability improvements that considers distributional
529 impacts could produce more equitable outcomes. Earlier we stated that we had concerns
530 about continued pursuit of systemwide reliability improvements. However, there may be
531 cause for seeking some targeted improvements. For example:

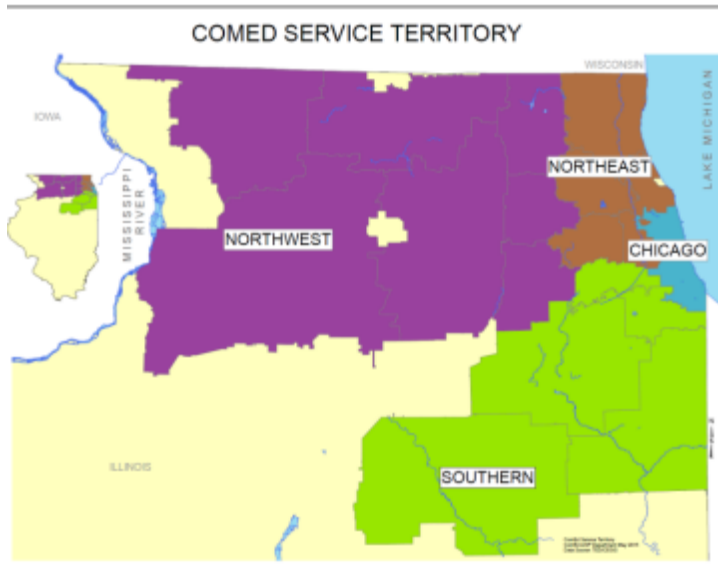
- 532 • ComEd has four operating areas or zones and its reliability performance
533 varies by zone. Therefore targeted reliability improvements in the worst
534 performing zones could improve equity in electric service.
- 535 • Reliability improvements could be targeted to environmental justice (EJ)
536 and equity investment eligible communities, which would help the PIM
537 comply with Section 16-108.18(e)(1)(C), which requires that reliability
538 PIMs ensure equitable benefits.

539 **Q. Why would a SAIDI metric that targets specific ComEd operating zones be more**
540 **effective than the systemwide target proposed by the Company?**

541 A. ComEd has four operating zones, Chicago, Northeast, Northwest, and Southern, as shown
542 in the map below.⁴⁸

⁴⁸ 2020 Commonwealth Edison: Electric Reliability Report & Customer Satisfaction Survey. Section G at G-1.

543 **Figure 3. Map of ComEd Service Territory**



544

545 The reliability in these areas varied considerably over the 2013-2021 period, as shown in

546 Table 2 below.⁴⁹ The Chicago and the Northwest areas show a 45.4% and 44.1% improvement
547 respectively, while the Northeast and Southern areas show a smaller improvement of 42.0% and
548 41.1% respectively notwithstanding the poorer reliability in those areas at the start of the period.

⁴⁹ See ComEd Response to Staff DR ENG 1.05(d)(i). Calculation of averages added.

549 **Table 2. SAIDI Performance by ComEd Zone, 2013-2021**

SAIDI					
Year	Chicago	Northeast	Southern	Northwest	System
2013	46.7	63.6	76.9	71.6	61.8
2014	40.6	73.7	102.4	74.8	68.1
2015	43.8	71.1	86.2	71.9	64.6
2016	35.9	51.4	87.1	53.1	53.6
2017	30.2	45.3	60.0	60.0	45.4
2018	29.0	52.0	66.2	66.6	49.0
2019	25.8	39.0	60.8	65.3	43.3
2020	24.1	27.7	44.4	39.7	32.0
2021	25.5	36.9	45.3	40.0	34.9
Average: 2013-2021	33.5	51.2	69.9	60.3	50.3

550

551 **Q. What conclusions do you draw from this information?**

552 A. The differences among these areas mean that not all ComEd customers experience the
 553 same level of reliability. Average SAIDI in the worst performing Southern zone over the
 554 period 2013-2021 has been more than double the average SAIDI in the Chicago zone
 555 (69.9 vs. 33.5). Moreover, improvement in these zones has proceeded at different clips,
 556 ranging from about 10.5% per year in the Northeast zone to about 7.0% per year in the
 557 Northwest zone allowing the reliability disparities to continue. Focusing reliability
 558 efforts on areas with poorer reliability could provide tangible benefits to customers in
 559 areas that currently experience greater than average outage frequency or outage duration.

560 **Q. Would formulating the SAIDI PIM on a penalty-only basis be consistent with the**
 561 **statutory requirement that the PIMs portfolio be symmetrical.**

562 A. Yes. The Commission can eliminate the reliability-based incentives and balance the
 563 penalty-only reliability PIMs penalties with incentive earnings opportunities for other

564 outcomes that are in need of counter-incentives so that the total number of penalty and
565 incentive basis points for the portfolio is symmetrical.

566 **Customers Exceeding Minimum Service Levels PIM (Number 2)**

567 **Q. Please describe ComEd’s proposed PIM for Customers Exceeding Minimum**
568 **Service Levels for Reliability or Resiliency.**

569 A. This PIM is based on ComEd’s existing service reliability targets metrics that it reports as
570 a part of its obligations under current ratemaking and under 83 Ill. Admin. Code
571 411.140.⁵⁰ As proposed by ComEd, the PIM would measure the number of customers
572 experiencing either four or more interruptions per year for three consecutive years, or at
573 least one 12-hour interruption per year for three consecutive years. The Company
574 proposes a target of 3.5% improvement per year relative to baseline, and a symmetrical
575 incentive/penalty of 10 basis points.

576 **Q. Do you support this PIM?**

577 A. We support it partly in concept, but recommend that it be modified to prioritize
578 improvements in reliability performance for customers in EJ and equity investment
579 eligible communities. For the reasons elucidated before, we also recommend that this
580 PIM be converted to penalty-only.

⁵⁰ 220 ILCS 5/16-108.5(f)(4); 83 Ill. Adm. Code 411.140

581 **Q. Please describe your proposal for a new PIM targeting and prioritizing reliability**
582 **improvements for vulnerable customers⁵¹ with poor service.**

583 A. Our recommended PIM would be based on the number of customers exceeding service
584 reliability targets *who are residents of EJ and equity investment eligible communities*. We
585 further recommend that the minimum service standards be raised, so that this PIM would
586 count all customers with more than four interruptions in each of the last *two* consecutive
587 years, or more than 12 hours of total interruption in each of the last *two* consecutive
588 years. This PIM would not exclude “major event days” which are excluded from the
589 SAIDI measure but would count all outages experienced by customers.

590 **Q. Please explain why your PIM prioritizes improvements for vulnerable customers**
591 **experiencing poor service?**

592 A. First, we observe that the statute calls for specific consideration of vulnerable customers
593 in formulating reliability and resiliency PIMs.⁵² We further conclude that targeting
594 improvements for vulnerable customers experiencing exceptionally poor service would
595 make more of a difference in the lives of these customers than simply targeting broad-
596 based reliability improvements. Customers residing in EJ and equity investment eligible
597 communities are often more severely impacted when the power goes out since they may
598 have fewer financial resources, have less access to transportation, live in more congested

⁵¹ By “vulnerable customers,” we are primarily referring to customers in environmental justice and equity investment eligible communities. However, this definition could be expanded to include other vulnerable customers, if warranted.

⁵² “Metrics related to reliability shall be implemented to ensure equitable benefits to environmental justice and equity investment eligible communities, as defined in this Act.” Section 16-108.18(e)(2)(C).

599 quarters, or otherwise face a range of complicating factors. Thus, it is reasonable that
600 there should be a PIM that focuses primarily on these customers.

601 **Q. Why do you suggest that the service standards be raised in your proposed PIM?**

602 A. We believe that the existing standards are too lax, given the General Assembly’s
603 concerns about the undue impacts of outages on vulnerable customers. We note that
604 experiencing four or more outages for two consecutive years, or twelve hours of total
605 outage time for two consecutive years would still be difficult to bear – especially for less-
606 resourced customers who may be more vulnerable to the adverse impacts of power
607 outages.

608 **Q. Is it fair to propose a PIM that includes weather-related outages?**

609 A. Yes. Customers experience both weather-related and “blue-sky” outages, and the
610 burdens on customers are the same in either case. The SAIDI measure specifically
611 excludes outages related to “major events” such as weather-related outages, limiting its
612 effectiveness in incenting operations and maintenance efforts such as tree trimming and
613 preventative maintenance. This suggested PIM could provide an incentive to encourage
614 storm preparedness, and its focus on EJ and equity investment eligible communities
615 results in a more limited and targeted risk to the Company while being responsive to the
616 statute’s focus on these vulnerable communities.

617 **Q. Does your suggestion to target the SAIDI PIM to improve performance in ComEd**
618 **operating zones where the SAIDI is and has been lower than other zones address**
619 **reliability for customers other than those in EJ and equity investment eligible**
620 **communities?**

621 A. Yes. By addressing reliability in zones where the reliability, as measured by SAIDI, is
622 worse than in other zones, customers in those areas should see an overall improvement in
623 reliability irrespective of whether they are in an EJ or equity investment eligible
624 community. However, if a systemwide SAIDI measure were allowed, it would be more
625 difficult to track improvements in areas that need it the most.

626 **SYSTEM Visibility Index PIM (Number 3)**

627 **Q. Please describe the Company's proposed system visibility PIM.**

628 A. This PIM would be based on a new system visibility index that would measure the
629 distribution system visibility through SCADA integration and device communication
630 health. The Company has proposed to target 2% annual improvements in SCADA and
631 visibility penetration per year and to assign a symmetrical incentive/penalty of 5 basis
632 points.⁵³

633 **Q. What concerns do you have with ComEd's system visibility PIM proposal?**

634 A. This PIM appears to reward investments more than actual, measurable outcomes. Also,
635 and as previously noted, Section 16-108.18(e)(1)(C) requires that reliability PIMs must

⁵³ ComEd Exhibit 2.0, pages 11-14.

636 ensure equitable benefits to EJ and equity investment eligible communities. This is not
637 addressed in the Company's proposal.⁵⁴

638 Further, as discussed above, ComEd already has an obligation to provide reliable service.
639 It includes investments in SCADA in its annual reliability report filed in compliance with
640 83 Ill. Admin. Code 411.140.⁵⁵ ComEd has not demonstrated why its investment in
641 system visibility is not an ongoing reliability obligation, and that it is reasonable to be
642 rewarded for delivering on this core function and obligation.

643 Finally, PIMs should not offer a utility more financial benefit than is necessary to align
644 its performance with the public interest. ComEd earns a return on its capital investments
645 and will continue to have expedited cost recovery under the MRP, and therefore has an
646 incentive to invest in its system to improve reliability. While a PIM can be effective to
647 counter-act a disincentive to act, it is inappropriate to further incentivize the performance
648 of a core function for which the utility is already compensated and incented.

649 **Q. Has the Company estimated the cost-effectiveness of its proposed system visibility**
650 **PIM?**

651 A. No. The Company reports that it does not know how much it will cost to meet the
652 proposed targets.⁵⁶ Concerning the customer economic benefits for this PIM, the
653 Company remarks that they "cannot easily be quantified."⁵⁷

⁵⁴ While the Company does suggest that there may be equity benefits associated with this PIM, it is not clear that the Company is using the term to indicate benefits to EJ and equity investment eligible communities. See Staff 1.01 and Staff 1.02.

⁵⁵ Commonwealth Edison Company's Infrastructure Investment Plan. 2020 Annual Update. April 1, 2021, page 10.

⁵⁶ ComEd response to Staff 1.01.

⁵⁷ Ibid.

654 **Q. Are there other approaches to reliability that the Commission could consider?**

655 A. There are more creative means of enhancing reliability and resilience that are not already
656 incentivized through the utility's ROE, such as through partnerships or contracts with
657 third-party providers to provide renewable backup power to community centers and
658 critical infrastructure in environmental justice and equity investment eligible
659 communities as well as in rural areas where reliability is below minimum standards.
660 These alternative approaches could provide measurable financial investment and benefits
661 to the eligible communities and would potentially have the additional benefit of making a
662 more meaningful contribution to resiliency and weather-related outages than would the
663 Company's general grid investment plans.

664 **V. COMED'S PROPOSED TRACKING METRICS**

665 **Q. Please summarize the Companies' tracking metrics proposal.**

666 A. ComEd has proposed eleven tracking metrics as follows: two metrics for emissions
667 reductions, one metric for grid flexibility, two metrics for cost savings, three metrics for
668 diversity, and three metrics for equity.

669 **Q. Do you support the proposed tracking metrics?**

670 A. In general, yes. We view tracking metrics as a low-cost and low-risk tool that can yield
671 useful information that can help to improve both utility performance and the overall
672 regulatory framework.

673 **Q. Do you have any recommended changes to the tracking metrics?**

674 A. We recommend that the Company report on residential customers experiencing more
675 than *four* interruptions in each of the last *two* consecutive years, or more than 12 hours of
676 total interruption duration due to interruptions in each of the last *two* consecutive years.
677 This additional reporting metric should be added so that 2022 and 2023 data is available
678 to provide a benchmark against which to compare performance in the new PIM that
679 targets EJ and equity eligible communities we describe above.

680 **VI. CONCLUSION AND SUMMARY OF RECOMMENDATIONS**

681 **Q. What are your recommendations?**

682 A. We recommend the following:

- 683 1. Reliability improvements should be targeted selectively in areas of high need,
684 including areas of substandard performance, environmental justice communities,
685 and equity investment eligible communities.
- 686 2. PIMs for reliability should generally be implemented on a penalty-only basis
- 687 3. The Commission should not approve any of ComEd's proposed PIMs without a
688 benefit-cost analysis, and it should direct ComEd to produce a benefit-cost
689 analysis for any PIMs that are ultimately adopted.
- 690 4. The Commission should reject individual PIMs if PIMs are not cost-effective, do
691 not provide meaningful customer benefits, or duplicate existing regulatory or
692 statutory incentives. The Commission should not limit itself to considering the
693 PIMs proposed by the Company, but it should rather evaluate all of the proposals

694 in this docket and adopt the PIMs that best further the statutory and regulatory
695 policies that gave rise to this docket.

696 5. Regarding the specific PIMs proposed by the Company, we recommend that the
697 Commission:

698 a. Eliminate the SAIDI PIM, as it is unnecessary and unlikely to
699 maximize net benefits to customers. However, if the Commission
700 elects to approve a SAIDI PIM, we recommend that the PIM be
701 redesigned to focus its interventions in areas of substandard service or
702 high need and be made penalty-only.

703 b. Reformulate the proposed Minimum Service PIM so that it is penalty-
704 only and tracks and prioritizes performance levels for just EJ and
705 equity investment eligible communities.

706 c. Eliminate the System Visibility PIM as it is unnecessary and is
707 unlikely to result in net benefits to customers.

708 6. Given that this is the first set of PIMs under the new law and the new multi-year
709 rate plan, if the Commission approves PIMs in the absence of cost and benefit
710 information, the Commission should reduce the total earning opportunity for the
711 PIMs portfolio to no more than 20 basis points.

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

713 A. Yes, it does.