

Proposed Policy for Version 3.0: Prohibited Expenses Expansion
Submitted By: ICC Staff

Question 1: Proposed Policy and Rationale

Briefly describe the policy proposed to be included in Policy Manual Version 3.0, including rationale for why this policy is necessary in Illinois.

Questions to consider:

- 1. Why does this policy require inclusion in Policy Manual Version 3.0?*
- 2. What unresolved policy issue(s) will be resolved by inclusion in the Policy Manual Version 3.0?*

Please be as specific as you can. If you have specific policy language to propose at this time, please include in this template. It is not a requirement to draft policy language in the proposal template. If draft policy language is not included here, you may be assigned to draft proposed policy language for review by the Subcommittee at a future meeting.

ICC Staff recommends expanding the prohibited expenses list to add back in tickets to sports events (previously approved in v1.0), and add incentive compensation tied to financial metrics and incentive compensation unrelated to energy efficiency. During v2.0 update process, Staff had proposed broadening the tickets to sports events to incorporate a broader prohibition on entertainment expenses, but agreement couldn't be reached on the broader entertainment prohibition so the tickets to sports events was dropped. As a result of the tickets to sports events being dropped, Staff has noticed that the previous language prohibiting tickets to sports events has been removed from some contracts; therefore, Staff is proposing tickets to sports events to be added back so the utilities will start including the sports ticket prohibition in all contracts again. Staff previously proposed the incentive compensation items, but they had to be withdrawn due to an open docket and litigation during the v2.0 update process. NCLC and Staff also propose Entertainment to be added to list of prohibited expenses. Below is Staff's recommended additions to Section 5.4 of the Policy Manual in redline:

5.4 Prohibited Expenses

Energy Efficiency cost recovery is controlled by the Public Utilities Act, Commission rules and the Program Administrators' tariffs on file with the ICC. Subject to the Act, the applicable rules and tariffs, Program Administrators shall explicitly incorporate expenses prohibitions in all vendor contracts (including contracts for vendor subcontractors) that involve costs to be recovered through the Energy Efficiency cost recovery tariff mechanisms. Such expense prohibitions are applicable to utilities and their subcontractors. Prohibited expenses shall not be recoverable from Illinois ratepayers

through the Energy Efficiency cost recovery tariff mechanisms. Prohibited expenses shall include but shall not be limited to:

- Direct payment for alcoholic beverages; ~~and~~
- Marketing of the utility name which fails to relate to or reference either in writing, orally or visually, Energy Efficiency Programs, products or services;
- Tickets to sports events;
- Incentive compensation tied to financial metrics;
- Entertainment; and
- Incentive compensation unrelated to Energy Efficiency.

Question 2: Utility Impact

Describe whether the proposed policy impacts Illinois gas utilities, electric utilities, or both.

Both.

Question 3: Background Research

Provide any background research completed in preparing this template, including source references and links, as applicable.

Questions to consider:

1. *Are you aware of other jurisdictions or utilities that address this policy issue?*
2. *Have any national or regional energy efficiency organizations addressed this policy topic? If so, please provide reports and any other relevant sources.*

Focus on Energy Policy Manual 2013, POLICY: Costs and Invoices, Section VIII. Specific Non-Allowable Costs on pages 47-48 which includes among other things Entertainment (Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are non-allowable.).

Optional Question 4: Commission Decision

Has the Illinois Commerce Commission previously addressed this policy or issue? If so, please provide language and specific citations, including the ICC docket number.

Yes.

Incentive compensation tied to financial metrics was addressed in ICC Docket No. 16-0458 Final Order page 12. “Moreover, Nicor Gas’ assertion that Staff’s proposed disallowance would have a negative effect on customers is not persuasive. The Commission routinely disallows recovery of incentive compensation costs related to financial goals, and Nicor Gas provides no evidence of a negative impact nor even alleges that such negative impacts have occurred. Nicor Gas has not shown that the contested incentive compensation costs provide tangible benefits to ratepayers. Therefore, Nicor Gas has not provided adequate justification for the Commission to

deviate from its long-standing practice to disallow recovery of incentive compensation costs based on financial goals. The Commission adopts Staff's adjustment."

Incentive compensation unrelated to energy efficiency was addressed in ICC Docket No. 10-0537 Final Order pages 24-25. "This Commission has long required a showing of benefit to ratepayers due to AIP to recover incentive compensation cost. In this Docket, the Company had failed to show how the incentive cost it sought to recover relate to energy efficiency or how the AIP had been tailored for ComEd's EE employees."

Tickets to sports events was prohibited in Policy Manual v1.0 that was approved by the Commission. Tickets to sports events are discretionary and extravagances that are not necessary for delivering effective energy efficiency programs and they do not benefit ratepayers. Commission Directives: "[T]he Commission finds these general team-building type rationalizations insufficient to justify luxury entertainment expenses." Nicor, ICC Final Order Docket No. 12-0601 at 13-14 (July 28, 2015); see also, ComEd, ICC Final Order Docket No. 10-0467 at 111 (May 24, 2011); Nicor, ICC Final Order Docket No. 95-0219 at Section IV(b)(7) (June 20, 1996).

Optional Question 5: Statutory Consistency

Have you reviewed your proposed policy against applicable Illinois law? Are there any possible conflicts? If so, please explain and provide statutory citation(s).

No conflicts.

Optional Question 6: Additional Information

Provide additional information, as needed, to assist with understanding the proposed policy issue and your request to include it in the Policy Manual Version 3.0. For example, have any memos been drafted to the SAG related to this policy proposal?

NA.