

**AUDIT REPORT ON THE EXPENDITURES  
OF THE  
EDISON ELECTRIC INSTITUTE  
(For the 12 month period ended December 31, 1997)**

**NOVEMBER 1998**



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**COMMITTEE ON  
UTILITY ASSOCIATION OVERSIGHT**

A60 PC DIVISION  
SEATTLE

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October 1998

**To: The Chairs and Chief Accountants of the State Regulatory Commissions****From: The NARUC Committee on Utility Association Oversight****Re: Transmittal of the 1997 Report on the Expenditures of Edison Electric Institute**

Dear Commissioners and staff:

Enclosed is the annual report on the expenditures of the Edison Electric Institute (EEI) provided for your review and consideration. Hopefully, you will find the information contained herein to be useful in helping you decide which, if any, of the costs of the association you should approve for inclusion in utility rates. Often, such costs directly incurred by the state's utilities are reviewed by state commissioners in accordance with their policies for treatment of such costs.

Several expense categories in the report may be viewed by some state commissions as potential vehicles for charging ratepayers with such costs as lobbying, advocacy or promotional activities, which may not be considered by some commissioners to be to the benefit of state ratepayers. In the opinion of some state commissions, the possible exceptions to that view may be expenses directly related to research and development relevant to utility operations, and a proportional amount of associated administrative overhead expense.

EEI requested, and the NARUC Committee approved, modification of its Schedule of Contributions & Club Dues (see pages III 7-10 of the EEI report) by combining all contributions, both political and other, into one column, which is consistent with how the AGA and the USTA report these expenditures.

The Committee and its staff have reviewed the EEI Annual Audit Report for 1997. In addition, staff members met with EEI financial officials, tested the association's expenses on a random basis to determine if they were charged to the proper categories, and discussed with EEI officials any items which appeared to require further explanation. Staff is satisfied that the EEI Annual Audit Report for 1997 fairly presents the expenditures of EEI in the manner prescribed by NARUC.

If you have further questions about the above responses, or questions about other expenses in the EEI annual audit report, please let me know and the

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**MEMBERS OF THE COMMITTEE ON  
UTILITY ASSOCIATION OVERSIGHT**

The Honorable Edward M. Meyers, District of Columbia PSC (Chair)  
The Honorable J. Terry Deason, Florida PSC  
The Honorable Joseph P. Mettner, Wisconsin PSC

**STAFF SUBCOMMITTEE ON  
UTILITY ASSOCIATION OVERSIGHT**

Mr. Dwayne J. Boyd, District of Columbia PSC  
Mr. Glenn Bartron, Pennsylvania PUC

SECTION VII

AUDIT DEFINITIONS OF ACCOUNTS USED  
FOR NARUC REPORTING REQUIREMENTS

**Edison Electric Institute  
Audit Definitions of Accounts Used  
For NARUC Reporting Requirement**

**LEGISLATIVE ADVOCACY (LA)** - EEI defines the term "legislative advocacy" consistent with the definition of the term "lobbying" in IRC Section 162 (e). Title 26 USC 162 (e) (see Page I-4)

**LEGISLATIVE POLICY RESEARCH (LP)** - The cost of all efforts spent on research or the preparation of general or specific background information, studies, or analysis of proposed or potential legislation to determine its scope and potential impact, for use by EEI or its member companies. This account shall also include the cost of researching and responding to ALL inquiries regarding the potential impact, proper implementation, or effect of proposed or potential legislation but shall not include costs for legislative advocacy.

Legislative Policy Research begins when resources are expended for the purposes described in the above areas.

**REGULATORY ADVOCACY (RA)** - The cost of all written and oral communications with Federal or State regulatory agencies intended to influence the actions of such agencies and the cost of other expenditures which contribute in a general manner to furthering an EEI or member company position on a regulatory or administrative matter.

**REGULATORY POLICY RESEARCH (RP)** - Includes all costs divided into the following categories:

- (1) **Federal** - The cost of studying and responding to notices of inquiry or proposed Federal rulemaking or administrative or regulatory proceedings, including the filing of comments on proposed regulatory or administrative actions; discussions with federal regulatory agencies to determine the status or timing of activities, or procedures of the agencies; the preparation of general or specific background information, studies or analysis, for use by EEI or its member companies to determine the scope and potential impact of proposed, or potential federal regulatory or administrative action; the cost of researching and responding to ALL inquiries regarding the potential impact, proper implementation, or effect of, proposed or potential federal regulatory or administrative actions; and the cost of monitoring existing federal government programs.

## Edison Electric Institute Audit Definitions of Accounts Used For NARUC Reporting Requirement

- (2) **State** - All direct and indirect costs which are incurred for the purpose of an EEI or member company response to a State notice of inquiry or proposed State rulemaking or administrative, or regulatory proceeding, including the filing of comments on proposed regulatory, or administrative actions.

**ADVERTISING ( A1)** - All costs, including costs of development (both direct and indirect), of paid and public service advertising in newspapers, magazines, radio, television and billboards and similar displays.

Advertising costs include the following categories:

- (1) **Conservation** - Identifies conservation techniques, benefits, demonstrates conservation methods including peak clipping, valley filling or load shifting;
- (2) **Safety** - Promotes safety, e.g., informing customers of hazards;
- (3) **Customer education** - Informs about ways to reduce costs; promotes use of efficient appliances; promotes efficient use of utility service; optional payment plans; financial assistance, etc.
- (4) **Legally required** - Is required by law or other governmental requirement;
- (5) **Promotes consumption** - Promotes continued or increased sales; i.e., maintaining or increasing sales to present or prospective customers;
- (6) **Institutional** - Enhances the image of EEI or of the utility industry as a business entity;

**MARKETING AND DEMAND SIDE MANAGEMENT (M1)** - The cost of all efforts (with the exception of advertising) to influence the demand for or sales of electricity. This account shall include the cost of research, publications, conferences, training sessions, meetings with trade allies, committee meetings or other efforts undertaken for the purpose of influencing the demand for or sales of electricity. Demand Side Management and marketing costs include the following:

- (1) **Strategic Conservation** - expenses related to exploration, development, analysis and implementation of means by which load shape might be modified by a reduction in sales as well as a change in the pattern of use;

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- (2) **Peak Clipping** - expenses related to explorations, development, analysis and implementation of means by which load shape might be modified by the reduction of peak load;
- (3) **Valley Filling** - expenses related to exploration, development, analysis and implementation of means by which load shape might be modified by increasing off-peak loads.
- (4) **Load Shifting** - expenses related to exploration, development, analysis and implementation of means by which load shape might be modified by shifting loads from on-peak to off-peak periods;
- (5) **Strategic Load Growth** - expenses related to exploration, development, analysis and implementation of means by which load shape might be modified by a general increase in sales;
- (6) **Flexible Load Shape** - expenses related to exploration, development, analysis and implementation of means by which load shape might be modified temporarily.

**UTILITY OPERATIONS AND ENGINEERING (UE)** - The cost of collecting and providing information on utility operations and engineering issues to member companies, other utilities, and other utility organizations. For purposes of this definition, operations and engineering shall include engineering and standards, fossil and synfuels, nuclear power, and environment. This category shall not include costs for activities related to legislative advocacy or research, regulatory advocacy or research, surveys and analysis of State laws and regulation, public relations, or litigation.

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**FINANCE, LEGAL, PLANNING, AND CUSTOMER SERVICE (FL)** - The cost of collecting and providing information on finance, legal and planning issues to member companies, other utilities and other utility organizations.

For purposes of this definition, finance, legal and planning shall include accounting, finance and regulation, legal, strategic planning, human resource management, information and administration, and information systems and library services. Customer Service and Support Information include expenses relating to the acquisition, compilation, categorization and dissemination of information useful in the improvement of the quality and value of service rendered to customers.

This category shall not include costs for activities related to legislative advocacy, legislative policy research, regulatory advocacy, regulatory policy research, surveys and analysis of State laws and regulation, sales promotion, public relations or litigation.

**PUBLIC RELATIONS (PR)** - The cost of developing and promoting reciprocal understanding and goodwill between EEI or its member companies and the various publics with which they interact including but not limited to the cost of developing and advancing an EEI or member company relationship or position with the media and the costs associated with responding to media inquiries. Public Relations shall include the costs associated with public opinion research which seeks to enhance the image of EEI, its member companies, or of the utility industry as a business entity or otherwise seeks to influence public opinion on matters not relating to legislative or regulatory issues.

The cost of public relations shall also include the costs associated with EEI employee time charges for time donated to outside organizations other than EEI member companies and any other expenses whose ultimate purpose is to develop goodwill or enhance the image of EEI, its member companies, or of the utility industry as a business entity, which do not more properly relate to other categories.



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**GENERAL AND ADMINISTRATIVE (GA)** - Administrative expenses (subscriptions, membership fees to professional organizations, travel, etc.) for all divisions, except the Administrative and Treasury Division (A&T), and the Human Resource Department (HR) were allocated to the various NARUC categories in proportion to direct salary dollars within the respective divisions. Administrative expenses in the A&T and Human Resources Divisions were allocated in proportion to direct salary dollars.

**OVERHEAD (OO)** - Corporate-wide expenses allocated to the various NARUC categories in proportion to total company direct salary dollars. Overhead consists primarily of General Office (rent, depreciation, communications, maintenance, office supplies, postage, insurance, etc.) expenses.