

**Testimony of
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Subcommittee on Diversity and Inclusion
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Introduction

Good afternoon Chairwoman Beatty, Ranking Member Wagner and members of the subcommittee. My name is William Von Hoene, Jr. I am the senior executive vice president and Chief Strategy Officer for Exelon Corporation. Exelon operates six electric and gas utilities, and is the largest operator of nuclear power plants and the largest producer of carbon-free energy in the United States. Constellation, our retail electricity business, participates in energy markets in 48 states, serving 2 million customers and two-thirds of companies on the Fortune 100. Our six utilities, Atlantic City Electric; Baltimore Gas & Electric (BGE); Commonwealth Edison (ComEd); Delmarva Power; PECO; and Pepco, serve approximately 10 million customers in the cities and metropolitan areas around the District of Columbia, Wilmington, Del., Chicago, Baltimore, Atlantic City, and Philadelphia. Thank you for the opportunity to share our company's perspective today as your Committee examines the critical role that diversity and inclusion plays in corporate success and financial performance.

Corporations often talk about fostering diversity and inclusion as a moral imperative. America is a nation founded on the ideals of freedom and equal opportunity for all people. To be true to that principle, we must implement diversity and inclusion so that all segments of our

population can have the opportunities, for themselves and their families, to flourish. At Exelon, we fully embrace this concept.

However, today's hearing is about a related but different principle: businesses gain a competitive advantage and are more likely to succeed and thrive when they are diverse and inclusive. That means everything we can do as business leaders and policymakers to advance diversity and inclusion goals makes our economy and nation stronger. At Exelon, we embrace this principle as well, and as our history reflects, doing so has brought enormous benefits to our customers, our shareholders and the communities we serve.

Studies repeatedly have confirmed the business value of diversity. A 2018 research report by McKinsey & Company concluded that companies with the most ethnically diverse executive teams are 33 percent more likely to outperform their peers in profitability. McKinsey also concluded that companies with higher gender diversity on their executive teams were 21 percent more likely to experience above-average profitability than those with lower gender diversity. A similar 2018 report by Deloitte Insights concluded that organizations with inclusive cultures were more likely to meet or exceed financial targets, be high-performing, innovative and agile. Numerous other analyses are fully in accord. Set forth in my testimony below is a summary of the Exelon experience, which powerfully corroborates those findings.

Exelon's Business

Exelon is a major economic engine in the communities we serve. In addition to employing over 34,000 people, the energy we provide touches every home and business in our service territories and supports every sector of the economy. We are inexorably tied to those communities; electric and gas utilities, power plants, windmills, hydroelectric dams and solar

installations can't get up and move. As our headquarter cities – Chicago, Washington DC, Baltimore and Philadelphia – reflect, those communities are diverse, with rich cultural heritages.

Our businesses also are extraordinarily complex, rapidly changing and occasionally quite volatile. Running utilities and power generation successfully requires superb engineering, operational dexterity, regulatory and financial sophistication, political acumen and myriad other skills. Technology is rapidly changing our business, requiring ingenuity and creative thinking unnecessary for most of the long history of our industry. In many instances these technological advances can turn the financial fortunes of utilities upside down. The collapse of gas prices, occasioned by the development of fracking to extract natural gas, is illustrative and comes close to home for our company. The income from our nuclear units has profoundly diminished in the last decade as this technology has matured. The rapid escalation of distributed generation such as solar electricity likewise is impacting utility operations in major ways. These are but two examples as to how the future financial well-being of the companies in our industry will turn on finding new ideas, relationships, products and services to bring value to our customers.

In the world I have just described – serving heterogeneous communities, facing a complex and rapidly changing business landscape, and confronted with the potential for significant financial demise by standing still – Exelon has found diversity and inclusion to be indispensable to its financial success and future growth. Our diversity strategy lies at the heart of everything we do, and rests on three primary pillars: building a diverse workforce and culture; seeking out supporting business partners who reflect our diversity goals; and empowering diverse communities through workforce development, corporate giving and community engagement.

Exelon's Culture of Diversity and Inclusion

Our culture of diversity starts at the top. Beginning approximately six years ago, Exelon launched an effort to put more rigor around our efforts to measure our progress on diversity. We began tracking our progress just as we do other key metrics, such as safety, operational excellence and financial performance. In the six years since, we have increased diversity in our workforce from 34 percent to 41 percent. Diversity at the management level has increased from 30 percent to 37 percent. Board representation by women and people of color increased 7 percent.

Each member of our Executive Committee is held accountable for her or his performance on diversity and inclusion measures, and it remains a key agenda item at each of our quarterly management meetings. In fact, it is the first agenda item at these meetings. Inclusive Leadership was the primary focus of last year's fall gathering of top leaders in our company. Also last year, we developed an inclusive leadership model consisting of seven behaviors to enable members of our Executive Committee to place inclusivity into action. And, approximately 80 company leaders have participated in a learning lab designed to develop inclusive leadership skills and build diverse partnerships.

This focus is reflected powerfully in the most senior leadership ranks of our companies. Our six utility businesses now account for well over fifty percent of our net revenue and we expect that percentage to increase going forward. The Chief Executive Officer for three of those utilities (Atlantic City Electric, Delmarva Power and Pepco) that operate under a single holding company is Hispanic. The Chief Executive Officer of our largest utility (ComEd) also is

Hispanic, and the Chief Executive Officer of BGE is African American. Their “boss,” the Chief Executive Officer of Exelon Utilities, is female.

It is of course impossible to measure with precision the financial impact of our diversity and inclusion focus over this period, but our results over the past six years align with what the McKinsey and Deloitte reports teach us about the success of companies who make diversity and inclusion part of their culture. Since 2013, our total shareholder return has increased 120 percent, our share price is up 73 percent and we have beaten the UTY index, which measures performance among our peers in the utility industry, by 12 and 9 percent, respectively. Our utility performance, led almost entirely by CEOs who are diverse, is in the top quartile or decile of virtually every metric by which utility performance is measured across the nation.

Exelon’s Diverse Business Partners

Exelon’s financial wellbeing depends not only on the performance of its officers and employees, but heavily upon that of its suppliers of goods and services as well. Contracted workers, providers of essential materials, lawyers, accountants, money managers and the like all are indispensable to our success. Like Exelon generally, the responsibilities we delegate to our providers have become increasingly complex and are rapidly transforming, requiring dexterity and ingenuity unneeded a decade ago. Again, a key driver for our success has been our commitment to diversity and inclusion with our outside partners. I will provide three examples.

First, general supplier diversity. Five years ago, Exelon’s overall spend with certified diverse suppliers was \$1.1 billion. In 2018, our purchases with diversity-certified suppliers totaled \$2.2 billion, representing 25 percent of total supply managed spend, and a three percent increase over 2017. Seventy-one percent of that amount was with direct suppliers (T1) and only

29 percent with subcontractors. We have an extensive branded supplier diversity program – the Diverse Business Empowerment Process – to actively seek and prepare diverse suppliers who may work for us in the future; a highly talented internal organization devoted exclusively to enhancing our certified diverse supplier deployment; and individual outreach programs in every one of our businesses. In 2017, the Billion Dollar Roundtable, a top tier advocacy organization with only 27 members (including Microsoft and Apple) that promotes corporate supplier diversity excellence, named Exelon as its first energy company member.

Second, professional services. Nine years ago, Exelon initiated a program to track the percentage of work done by diverse lawyers in its outside law firms, to rank those firms against each other (disclosing to each firm its ranking against others to encourage performance), and to recognize the firms whose diversity performance aligned most closely with Exelon’s diversity and inclusion goals. In the last six years, Exelon has expanded this program to evaluate the diversity performance of firms providing banking, insurance, IT, and consulting services. The results have been a dramatic increase in the representation of women, persons of color and other diverse groups in both the ranks and key roles on Exelon’s account teams. For example, in 2018, 37 percent of Exelon’s spend for outside counsel at “majority firms” was for work performed by diverse attorneys (in addition to \$2 million of spend with minority- and women-owned firms). And, in 2017, 64 percent of the outside bankers providing coverage services to Exelon companies were diverse.

Third, money management. Corporations and many public institutions historically have had minority- or female-owned firms manage virtually none of their pension dollars. Exelon initiated a modest minority manager program in 2003 for its pension funds, relying largely on fund of fund arrangements without any direct manager/company relationship. This is an

approach that is still very common elsewhere today. In 2010, with \$691 million dollars under minority management, Exelon converted its program to a direct mandate approach, bringing all sourcing and investment decisions in house. We subsequently expanded our program to cover nuclear decommissioning trust funds and our employee savings plans as well as our pension funds. As of March 31 of this year, 24 women and minority owned investment firms manage over \$3.1 billion dollars for Exelon. A number of those firms are among our strongest performers, and, in three of the last five years, a minority firm has had the highest returns of any of Exelon's U.S. public money managers.

What has the result been of all these activities on Exelon's overall performance and financial success? Profound. Again, it is hard to calculate with precision the financial impact of diversity and inclusion initiatives, but our supply chain had never operated more efficiently than it does today, nor have our banks, outside law firms, money managers or other professional service providers. In our challenging and complex world, diverse partners have brought us new ideas, unique perspectives and energy.

Empowering Diverse Communities

The foregoing testimony provides a snapshot of how diversity and inclusion programs have impacted Exelon's bottom line today. The business case for diversity does not end there. As we look to the future, we need to develop future employees from diverse backgrounds to continue to provide us with unique ideas and perspectives. And, we need the communities we serve to grow and prosper for us to grow and prosper. Focusing on underserved populations, particularly in our urban centers, is the key to doing both.

As to the former, we have devoted enormous resources to workforce development. Building the next-generation energy grid will require expertise in engineering, communications, cyber security, machine learning, big data, app development and software coding, among other fields. In other words, the industry needs experienced STEM (science, technology, engineering and math) workers to take our grid, and our industry, into the future. And increasingly the industry needs skilled craft workers, particularly in clean energy. As we build this workforce, we are working to ensure that under-represented groups such as people of color, women, veterans and people with disabilities receive access to training and educational opportunities that will position them to reinvent and lead this business in the new era.

For example, Pepco recently partnered with the District of Columbia leadership to launch the DC Infrastructure Academy. Pepco and the District recruit, train and prepare residents for well-paying careers in the electric utility industry. In 2017 and 2018, the program launched with classroom training that was geared to help students pass the utility industry prerequisite CAST test – a test of basic energy, technology and math principles. While just recently launched, Pepco has hired 16 graduates from the program into positions such as cable splicer mechanics, substation technicians and trainee line mechanics. Moving forward, Pepco and the DC Infrastructure Academy are expanding and developing a comprehensive 12-week Utility Training School in the District of Columbia modeled on a similar program our ComEd utility launched in Chicago.

In a similar vein, BGE is developing talent at the high school level with its Baltimore City Schools Partnership, which involves partnering with Baltimore City high schools to host conferences and workshops for high school students on the topics of construction, computer-aided design, engineering and automotive technology. Similarly, Exelon Generation has funded a STEM Academy program at Everett High School, which is in a low-income, diverse

community near its Mystic Generating Station in Massachusetts. In fall 2018, Exelon Generation provided all 125 Everett High School STEM Academy students with their own laptop to use for schoolwork.

Yet another example of our efforts is our partnership with the United Nations Women HeForShe initiative, under which we launched our inaugural STEM Innovation Leadership Academy for teen girls in Chicago, followed by a second academy in Washington, D.C. The academies brought young women ages 14 to 19 together for a week of interactive experiences, field trips and conversations with leaders in STEM fields, among other activities. The academies took place on the campuses of the University of Maryland and Illinois Institute of Technology and provided students with a college-like experience, including an innovative energy challenge where students had to redesign a public space to make it more sustainable and energy efficient.

As to the latter, Exelon is deeply rooted in its communities; we succeed or fail together. As our business grows and our communities benefit, we must ensure that no one is excluded from that progress – regardless of gender, race, cultural background, sexual identity or economic circumstances. That’s why each year we give our time and dollars to nonprofits and other organizations and institutions to help strengthen our communities and ensure that no one is left behind. Last year, our total giving topped \$51 million, with 83 percent of that total going to organizations, programs or events that were targeted specifically to diverse populations. The balance of our grants supported programs that benefited all audiences. Similarly, our employees volunteered more than 240,000 hours last year, with many pledging support to organizations serving diverse populations.

Conclusion

A friend of mine once captured the business case for diversity in a single question: is a person smarter if she or he reads the same newspaper four times rather than reading four different newspapers? The obvious answer to that question is of course not, and the compelling business case for diversity and inclusion is just as obvious. At Exelon, our commitment to diversity and inclusion has been a tremendous competitive advantage, providing us ideas, resources, perspectives and contacts with the communities we serve that otherwise would be impossible to replicate. Our financial success had leaned heavily on that advantage, and with the rapid and transformational changes coming in our industry, our dependency on diversity and inclusion in the future will be even greater.