**AG-NCLC Comments on PGS/NS Policy Manual Fuel Switching Proposal**

As we understand it, the proposal is to require fuel switching measures to:

1. Reduce GHG emissions
2. Reduce ratepayers’ energy costs
3. Be cost-effective, considering the costs and benefits from the perspective of ratepayers, the utility, and society (note it is unclear how “ratepayers” differs from “society” as we have traditionally defined them).

NCLC and the AG do not support this proposal. We believe that, other than clear requirements imposed in CEJA for electrification that may differ from those for efficiency (e.g., reduction in total energy consumption at the premises and limits on total amount of savings claimed toward goals as a percentage of the entire portfolio), it is inappropriate to impose additional barriers to electrification measures that do not apply to other efficiency measures. CEJA clearly establishes electrification and a reduction of fossil fuel reliance as a key state objective, and therefore has expanded efficiency programs to include it.

**Criterion 1 - GHG Emissions:**

Given the intent of electrification is ultimately GHG emissions reductions, this one might be considered to be appropriate by some parties. However, we have not been able to reach any consensus on how to quantify greenhouse gas emissions impacts. Until and unless we are able to resolve that issue, any policy requiring GHG reductions is unworkable. Further, because of the long-lived nature of virtually all electrification measures, and the expected continued decarbonization of the electric grid, it is unlikely that any viable electrification measures will not provide life cycle GHG emissions reductions. This is even more likely when electrifying delivered fuels, which for the current plan cycle is expected to be the only area targeted and likely the vast majority of all electrification measures adopted. However, given the difficulty in accurately estimating long term GHG impacts and the lack of agreement, we do not support imposing this requirement at this time. Also, because some electrification will be promoted through midstream, more prescriptive approaches, we believe this is unworkable as an individual measure screening (as opposed to an overall average screening of all measures of a given type). We believe any prescriptive offering should be available to any eligible customer regardless of their personal circumstances.

**Criterion 2 – Ratepayer Reduced Energy Costs:**

After some clarifying communication with PGS/NS we understand the second criteria “reduce ratepayers’ energy costs,” to essentially compare the energy system benefits to the costs. Traditionally, such a test is some sort of “utility cost test” (UCT). A UCT compares the cost-effectiveness of something in terms of the energy system. Often, referred to as a “modified” UCT when it includes all energy systems, not just that of a single utility. In other words, the criteria is that the energy avoided cost impacts of all fuels would create net benefits in total. However, the third criterion also seems to include screening test from a “utility perspective,” so we believe this may be redundant. In addition, as we understand from PGS/NS, it would include on the benefit side “decreasing environmental impacts.” If this includes a valuation for carbon (as opposed to just embedded compliance costs for SOx and NOx), then this essentially defaults to the current Illinois Total Resource Cost (TRC) test since we rarely include other non-energy impacts when using the TRC. The third criterion also requires passing a screen from ratepayer and society’s perspective. Therefore, we address this issue more below.

**Criterion 3 –Cost-Effectiveness Tests:**

First, as required by CEJA, the only cost-effectiveness test we currently use as a matter of policy in Illinois is the TRC test, including a valuation of GHG impacts based on the Federal social cost of carbon. Therefore, we do not support expanding any cost-effectiveness criteria to include the UCT or other modifications of that at this point, absent a wholesale change in cost-effectiveness screening policy that applies to all efficiency measures. We also note that because CEJA specifies use of the TRC test, imposing additional tests for any types of measures may be problematic. In addition to requiring passing cost-effectiveness from a utility perspective, this criterion also mentions testing from a ratepayer and a societal perspective. We interpret a ratepayer perspective as redundant with a societal perspective and that they both refer to the TRC test that Illinois uses and is specified in statute. Typically, regulatory commissions do not consider “society” as extending beyond the state boundaries, and so include all electric ratepayers. While one could argue that society includes municipal electric utility customers as well as those of ComEd and Ameren, because we do not currently include any price effects as TRC benefits, and our carbon value is already a social cost valuation, effectively there are no additional costs or benefits whether one considers municipal utility customers or not.

Not only do we not support requiring passing a utility cost test, which Illinois has never relied on, we also do not support requiring fuel switching measures to individually pass the TRC test. Efficiency measures are not required to be cost-effective, and this same policy should apply to fuel switching measures. Our current policy is that only the entire portfolio must pass TRC cost-effectiveness criteria. We therefore do not support creating additional barriers to fuel switching that are not directed by statute which would relegate fuel switching to being considered a lower class of resource than other efficiency measures.

We do have a policy that utilities should have a clear rationale for promoting a measure that is not typically cost-effective. Examples of these have been things like health and safety measures that can facilitate further efficiency measures. Given that CEJA has clearly established that electrification measures can count toward efficiency goals, and that it is a key State objective to reduce reliance on fossil fuels, this provides a clear rationale for the promotion of electrification measures. In addition, some electrification measures may also be health and safety measures as well, including stoves and space and water heating replacements when necessary for health and safety and to enable full home weatherization. Finally, we have also considered services to income qualified customers as not needing to be cost-effective and we expect the vast majority of electrification services will be targeted to income qualified customers.

We do not currently recognize all non-energy benefits from efficiency and/or electrification measures. We should therefore allow customers (especially non-IQ customers who must make an out-of-pocket investment) to elect to install measures that may not pass cost-effectiveness criteria, because they are likely making this decision in part based on other non-energy benefits they perceive. Electrification often provides additional non-energy benefits including improved indoor air quality, reduction in summer cooking waste heat, addition of cooling, improved comfort, basement dehumidification and mold reduction, etc.

Finally, we believe applying cost-effectiveness testing to individual measures is not workable for some delivery strategies that are planned to be midstream prescriptive approaches.

In subsequent communications with PGS/NS we understand that the proposal does not necessarily refer to the existing traditional industry standard practice cost-effectiveness tests, and could be completely newly designed tests. However, this would still be problematic in our view. For all these reasons we are opposed to adopting additional cost-effectiveness criteria for electrification measures. We believe this would be contrary to legislative intent (which explicitly added criteria that included reduced energy consumption but did not include any cost-effectiveness restrictions). Further, it would create barriers to fuel switching measures that are not imposed on any other efficiency measures.