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## Memorandum

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**To:** Illinois Utilities (Ameren Illinois, ComEd, Nicor Gas, Peoples Gas & North Shore Gas) and Policy Manual Subcommittee Participants

**From:** Celia Johnson, SAG Facilitator

**Re:** Summary of Substantive Changes to Policy Manual Version 2.0 Compared to Policy Manual Version 1.1

**Date:** November 25, 2019 (Final)

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This memo summarizes substantive changes to Policy Manual Version 2.0 compared to Policy Manual Version 1.1. This memo also identifies utility actions and SAG actions needed due to updated energy efficiency policies, as well as evaluator actions and IL-TRM Administrator actions, where applicable. Actions are indicated in red font within this memo.

Section A below summarizes substantive policy changes with an effective date of January 1, 2020. Section B summarizes substantive policy changes with an effective date of January 1, 2022.

This memo does not include a summary of changes to IL-TRM Policy Document Version 3.0 compared to IL-TRM Policy Document Version 2.0. IL-TRM Policy Document changes include: (1) modifying how non-consensus issues are addressed through the TRM update process, (2) clarifying that the TRM Administrator may limit participation in the event a TAC participant (except for Program Administrators or an entity acting on the Program Administrator's behalf) has a financial conflict of interest, becomes disruptive, and/or is hindering complete and frank discussions, and (3) eliminating dual reporting for Errata.

***Disclaimer: This memo attempts to summarize substantive policy changes but does not identify all policy changes for Version 2.0 nor does it include excerpted policy language. This memo should not be used as a substitute for reviewing Policy Manual Version 2.0. See the comparison version of Policy Manual Version 2.0 in track changes, summarizing edits compared to Policy Manual Version 1.1, for additional information on changes to Version 2.0.***

### **A. 2020 Policy Manual Effective Date**

#### **Section 4: Program and Portfolio Planning**

- **Subsection 4.1: Goals.** The list of Program Administrator objectives was updated. New objectives were added related to serving moderate and income qualified customers / disadvantaged communities, developing and supporting a growing workforce, and contracting for implementation of programs targeted at income-qualified households, with a preference for not-for-profit entities and government agencies that have existing relationships or serve low income communities.
  - **Utility Action:**
    - **Consider incorporating updated objectives in current EE Plans (2018-2021).**

- Include the updated objectives in next EE Plan.
  - SAG Action: Utilize updated objectives for next EE Plan stipulations.
- **Subsection 4.3: Income Eligibility Verification Guidelines for Low Income Customers.** This is a new policy to provide utilities with several approaches to verify customer income eligibility.
  - Utility Action:
    - Work with implementers to start using new pathways to verify income eligibility for multi-family income qualified / income eligible programs, while first using the least burdensome and least time-consuming options for building owners.
    - Alternative approaches identified in subsection 6(a) and 6(b) to verify income for multi-family customers may also be used to qualify income eligibility for single family homes, when circumstances arise.
  - SAG Action: None.

## Section 5: Cost Categories

- **Subsection 5.2: Portfolio Cost Categories.** This policy was updated to add the word “all” to clarify that all non-program costs should be classified within the four portfolio cost categories that already exist in Policy Manual Version 1.1 – Demonstration of Breakthrough Equipment and Devices Cost; Evaluation Cost; Marketing Cost; and Portfolio Administrative Cost.
  - Utility Action: Ensure all non-program costs are reported in the four portfolio cost categories listed in Section 5.2.
  - SAG Action: None.
  - Evaluator Action: Include all non-program costs in the portfolio TRC analyses, as required by Section 8.3.
- **Subsection 5.4: Prohibited Expenses.** This policy was renamed from “Inducements” to “Prohibited Expenses.” This policy was updated to include “marketing of the utility name which fails to relate to or reference either in writing, orally or visually, Energy Efficiency Programs, products or services.”
  - Utility Action:
    - Ensure marketing of the utility name is not recovered under EE Riders when not connected with energy efficiency.
    - Include prohibited expenses provisions in all vendor contracts (including contracts for vendor subcontractors).
  - SAG Action: None.

## Section 6: Program Administration and Reporting

- **Subsection 6.1: Program Flexibility and Budgetary Shift Rules.** This policy was updated to clarify the intent of reporting on program shifts. Budget shifts of 50% for programs with budgets under \$5 million or 20% for programs with budgets over \$5 million will be brought to SAG when practicable, and reported to the Commission in quarterly reports. This policy is for “specific and intentional planning decisions to shift Program budgets.” This policy does not include any “naturally occurring over or underspending that is a result of unexpectedly low or high customer participation.”
  - Utility Actions:

- Report intentional planning decisions to SAG that meet the new thresholds described above.
    - Include shifts in quarterly reports using new thresholds.
  - SAG Action:
    - Schedule SAG discussion of program flexibility / intentional planning decisions, as needed.
    - The policy also provides that stakeholders should “make best efforts to raise any concerns” in a timely manner.
- **Subsection 6.2: Adjustable Savings Goals.** This policy includes the following updates:
  - EE Measure participation levels are fixed for the adjustable savings goal calculation for the entirety of the Plan (this was a policy clarification);
  - Gas utilities file adjusted energy savings goals with the Commission within 90 days following approval of annual IL-TRM values (compared to 60 days in the prior policy);
  - Before adjustable goals are filed with the Commission, evaluators will verify that adjustments are accurate;
  - Gas utilities send draft adjustable goal spreadsheets to the SAG Facilitator annually, with discussion by interested SAG participants before finalizing; and
  - SAG Facilitator posts final adjustable savings goal spreadsheets to the SAG website.
  - Note: This policy will sunset upon the effective date of a Commission-approved tariff permitting a gas utility to earn performance incentive payments impacting the rates customers pay, although the Commission may approve continued adjustable savings goal policies in future policy manuals or other proceedings.
  - Utility Actions:
    - Send draft and final adjustable savings goal spreadsheets to SAG Facilitator on an annual basis.
    - Send draft adjustable savings goals spreadsheets to evaluators to verify adjustments.
    - Participate in SAG discussion of draft adjustable savings goals.
    - File adjustable savings goal spreadsheets with the Commission within 90 days after the IL-TRM is approved.
  - SAG Action:
    - Schedule annual SAG discussion of draft gas adjustable savings goals.
    - Stakeholders to review draft gas adjustable savings goal spreadsheets.
    - Post draft and final adjustable savings goal spreadsheets on SAG website.
  - Evaluator Action: Verify that gas utility adjustments were performed accurately.
- **Subsection 6.6: Program Administrator Quarterly Reports.** This policy was updated to reflect the final Quarterly Report Template, finalized in October 2018. The policy was also updated to reference quarterly reporting information on a diverse and inclusive workforce, specifically: “Quarterly reports may also contain the following information:
  - If applicable, any current or planned activities or investments to develop, support and grow a diverse and inclusive Energy Efficiency workforce.”
  - Utility Action: In quarterly narrative reports, consider reporting on developing, supporting, and growing a diverse and inclusive EE workforce.
  - SAG Action: Coordinate with Income Qualified Advisory Committee on whether there are additional metrics related to diversity and workforce development that should be added to the Quarterly Report Template.

- **Subsection 6.7: Program Administrator Annual Summary of Activities (Annual Report).** This policy was updated to reflect the final Annual Report Template, finalized in December 2018. Introductory language was added regarding when annual reports should be provided.
  - **Utility Action: Provide annual reports to SAG using the Annual Report Template after EM&V reports and related cost-effectiveness analyses are complete.**
  - **SAG Action: None.**
  
- **Subsection 6.8: Job Reporting.** This is a new policy requiring utilities to report annually on “economic development and employment impacts... of EE Programs using a consistent methodology. The estimates will be reported at the Portfolio level and verified by Evaluators or an expert in the area... Estimates will include direct, indirect, and induced effects on employment, industry output, and labor income.”
  - **Utility Action: Determine how this annual reporting requirement will be met.**
  - **SAG Action:**
    - **Schedule an ‘economic impact’ report-out by utilities to SAG on an annual basis.**
    - **Determine whether this information needs to be added to the Annual Report Template.**
  - **Evaluator Action: Check with utilities on whether evaluators will be responsible for performing or verifying the analyses regarding economic development and employment impacts.**

## Section 7: Evaluation Policies

- **Subsection 7.1.iii: IL-TRM Administrator Role.** New policy describing the role of the IL-TRM Administrator, including:
  - *Managing Participation:* As part of the IL-TRM Administrator’s management responsibilities, to the extent the IL-TRM Administrator has a reasonable basis to determine that a TAC participant (that is not a Program Administrator or an entity acting on the Program Administrator’s behalf) has a financial conflict of interest, becomes disruptive, and/or is hindering complete and frank discussions, the IL-TRM Administrator may manage and limit participation in discussions, as appropriate.
  - *Process for Handling Non-Consensus IL-TRM Updates:* To the extent a consensus among Program Administrators and non-financially interested stakeholders cannot be reached regarding issues related to specific IL-TRM updates, the IL-TRM Administrator shall have the authority to use its best judgment to propose a resolution of the issue and include such resolution in the updated IL-TRM that gets submitted to the Commission for approval. For transparency and informational purposes, the ICC Staff will document such dispute and include a link to a “Comparison Exhibit of Non-Consensus IL-TRM Update Issues” developed by the IL-TRM Administrator in the Staff Report submitted to the Commission. The “Comparison Exhibit of Non-Consensus IL-TRM Update Issues” will document, with input from interested parties, the various parties’ positions concerning a non-consensus IL-TRM update as well as the IL-TRM Administrator’s rationale for its resolution to the issue.
    - **Note: Program Administrators and stakeholders can challenge the IL-TRM Administrator’s proposed resolution by petitioning the Commission.**

- Utility Action: Ensure the next IL-TRM Administrator contract reflects these new requirements for the IL-TRM Administrator.
- SAG Action: None.
- IL-TRM Administrator Action: Ensure the new requirements are followed.
- **Subsection 7.2: Net-to-Gross Policy.** Added policy language on deeming NTG ratios for income eligible/income qualified programs.
  - Utility Action: None.
  - SAG Action: None.
  - Evaluator Action: Ensure the new policy is followed when providing annual NTG recommendations.
- **Subsection 7.3: NTG Ratio for Income Eligible Programs.** Added policy language on evaluator research for income eligible/income qualified programs, specifically that evaluators will not perform NTG research unless there is consensus from SAG and the Income Qualified Advisory Committees that there is value in performing the research.
  - Utility Action: Ensure evaluation contracts incorporate this policy requirement.
  - SAG Action: In the future if NTG research is proposed for income eligible/income qualified programs, discussion will be scheduled with both SAG and the Income Qualified Advisory Committees.
  - Evaluator Action: Follow this policy requirement.

## Section 8: Total Resource Cost Test

- **Subsection 8.4: TRC Costs.** Policy language updated to:
  - Required any avoided costs associated with O&M and deferred baseline replacement costs are treated as benefits;
  - Added examples of incremental cost calculations that were already adopted in the IL-TRM;
  - Clarified that for study-based services, incremental costs are included only at the level at which they become variable; and
  - Clarified that Incentives Paid to Third Parties includes the full cost of measures provided in kits and new construction design services.
    - Utility Action: Utilities should ensure they are tracking and reporting costs in a manner that complies with these definitions.
    - SAG Action: None.
    - Evaluator Action: Use these cost definitions when performing cost-effectiveness analyses.
- **Subsection 8.5: Discount Rates.** A new policy regarding conducting economic analyses for electric and gas programs using the societal discount rate, fixed for the entirety of the Plan period.
  - Utility Action:
    - The discount rate used for energy efficiency potential studies shall be the rates most recently added to the IL-TRM at the time that economic analysis for the potential studies began.
    - All multi-year Plans, retrospective cost-effectiveness analyses, annual reports, and potential studies shall include information on the discount rate used.
  - SAG Action: Update Annual Report Template with discount rate.

- Evaluator Action: Include discount rate in TRC Reports.
- IL-TRM Administrator Action:
  - As described in subsection 8.5, “It is the responsibility of the IL-TRM Administrator to develop proposed changes to the discount rates, based on these data, for each new planning cycle.”
  - The IL-TRM shall list both the real and nominal societal discount rates, as well as the corresponding inflation rate (current and historical rates).
  - The IL-TRM should also include the following language: “When discounting nominal data that was adjusted to nominal from original real data using an inflation rate that is different than the IL-TRM inflation rate value, the analyst should first adjust for inflation using the original (non-IL-TRM) value to convert the data back to the appropriate year’s real dollars and then use the real discount rate as specified in the IL-TRM.”

## Section 10: Evaluation Measurement & Verification Work Plans and Reports

- **Subsection 10.1: EM&V Work Plans.** This section includes updated timing for EM&V work plans:
  - Initial draft EM&V work plans: December 15
    - Comments due: January 15
  - Revised work plans: January 30
    - Comments due: February 12
  - Final EM&V work plans: February 28
  - Utility Action: Follow new review timeline and schedule for draft and final EM&V work plans.
  - SAG Action: Schedule annual EM&V work plan meetings before December 15<sup>th</sup> on an annual basis, if needed. Stakeholders should review and provide comments on draft EM&V work plans, following the new schedule.
  - Evaluator Action: Follow new review timeline and schedule for draft and final EM&V work plans.

## Section 11: Electric Program Administrator Energy Savings and Expenditures

- **Subsection 11.1: Applicable Annual Incremental Goal.** New policy added for electric utilities to describe the statutory language from the Future Energy Jobs Act (FEJA) which allows electric utilities to earn a rate of return on their EE spending if electric utilities create a regulatory asset. This policy section also provides a hypothetical example of how progress towards an electric utility’s AAIG should be performed.
  - Utility Action: Use the methodology summarized in this section in planning, tracking and reporting.
  - SAG Action: None.
  - Evaluator Action: Use the methodology summarized in this section in evaluation reporting.
- **Subsection 11.2: Cumulative Persisting Annual Savings.** New policy added for electric utilities to describe the statutory language in FEJA which establishes cumulative savings targets for electric utilities. This policy section also fixes the savings for the life of the measure at the time of installation, as verified by the evaluators. This policy section creates a default assumption that savings will be tracked at the measure level, except for “Measures that may be more appropriately tracked using weighted average measure lives for ‘Measure bundles’ installed in individual buildings.”

- Utility Action: Use the methodology in tracking and reporting savings and progress towards goals.
  - SAG Action: None, however SAG is meeting on Wednesday, November 20th for electric utilities to tee up issues related to CPAS.
  - Evaluator Action: Use the methodology summarized in this section in evaluation reporting. In addition, as described in the policy, evaluators shall determine when tracking “Measure bundles” would provide a more practical and/or accurate assessment of CPAS contributions.
- **Subsection 11.3: Counting Fossil Fuel Savings Toward Electric Savings Goals.** FEJA allows electric utilities to count other (non-electric) fuel savings towards their savings goals, limited to 10% of each year’s applicable annual incremental goal. This is a new policy that provides a conversion table for fossil fuel savings to electric savings.
    - Utility Action (Electric): Use the conversion table for converting fossil fuel savings to electric savings.
    - SAG Action: None.
    - Evaluator Action: Use the conversion table for converting fossil fuel savings to electric savings in evaluation reporting, where applicable.
- **Subsection 11.4: Electric Utility Weighted Average Measure Life.** In the August 2017 Final Order tariff approval dockets for electric utilities (Ameren Illinois and ComEd), the Commission directed SAG to discuss methodologies for Weighted Average Measure Life (WAML). WAML is a new calculation that is required for the electric utilities by FEJA. Specifically, Section 8-103B(e) allows a utility to create a regulatory asset and to amortize and recover the total expenditures of that regulatory asset “over a period that is equal to the weighted average of the measure lives implemented for that year that are reflected in the regulatory asset.” During SAG WAML meetings held in Fall 2017, interested parties agreed on a WAML methodology to be used by Ameren Illinois and ComEd during their 2018-2021 EE Plans. This was further discussed by the Policy Manual Subcommittee and added as a new policy. This policy clarified that 1) “measure life” in the formula is the life over which “the Program Administrator will be claiming” at least some savings from the measure, and 2) in calculating WAML, the gas Measure savings (and associated Measure life) that are actually counted toward a utility’s applicable annual incremental energy savings goal (maximum 10%) shall be included in the WAML calculation. Evaluators shall calculate WAML as part of their annual impact EM&V reports using verified gross savings.
    - Utility Action (Electric): Use the WAML formula as described in the Policy Manual.
    - SAG Action: None.
    - Evaluator Action:
      - Use the WAML formula as described in the Policy Manual.
      - Evaluators will calculate WAML as part of their annual impact EM&V reports using verified gross savings.

## **B. 2022 Policy Manual Effective Date**

### **Glossary**

- Updated definition of “Breakthrough Equipment and Devices”
  - New language states, “*Program Administrators shall consult with the SAG on the process for development and selection of Breakthrough Equipment and Devices plans prior to implementation, as well as the results of the planning process, as*

*practicable, but are ultimately responsible for investment decisions consistent with its Program Administrator responsibilities. Stakeholders shall make best efforts to raise issues regarding the Program Administrator’s proposals for Breakthrough Equipment and Devices during the Program Administrator’s consultations with the SAG. Nothing in this provision shall constitute a waiver by stakeholders or ICC Staff of the right to challenge a Program Administrator’s decision regarding Breakthrough Equipment and Devices in a Commission proceeding.”*

- **Utility Action:** Work with SAG and stakeholders on the process for development and selection of Breakthrough Equipment and Devices.
- **SAG Action:**
  - Schedule discussion during the Portfolio Planning Process on the process for development and selection of Breakthrough Equipment and Devices, for the next EE Plans.
  - Stakeholders should make best efforts to raise issues during Program Administrator consultations with SAG.

### **Section 3: Illinois EE Stakeholder Advisory Group**

- **Subsection 3.5: SAG Facilitator Independence.** Independence policy added for the SAG facilitator, which largely memorializes current independence requirements.
  - **Utility Actions:**
    - Submit the finalized but not yet executed contract with the SAG Facilitator to the Commission by letter to the Executive Director for each Plan.
    - Submit the fully executed contract and scope of work with SAG Facilitator as a compliance filing in the Policy Manual Version 2.0 approval docket, within 14 days of execution. This is for the 2022-2026 SAG facilitation contract.
    - Include requirements in contracts for provisions in the Policy Manual that describe SAG Facilitator obligations.
  - **SAG Action:**
    - If there are concerns raised related to the SAG Facilitator’s independence, that party is encouraged to raise a concern with the SAG Steering Committee.
    - Include requirements in contracts for provisions in the Policy Manual that describe SAG Facilitator obligations.

### **Section 6: Program Administration and Reporting**

- **Subsection 6.3: Adjustable Savings Goals Beginning in 2022.** This is a new adjustable savings goal policy for gas utilities that provides gas utilities with the discretion at the time of Plan filing to propose adjustable savings goals with NTG collars. Other key elements of the policy from subsection 6.2, which sunsets on December 31, 2021, are retained in subsection 6.3.
  - **Utility Actions:**
    - **NTG collars:** Gas utilities need to determine whether a NTG collar adjustment will be requested for the next EE Plan. This should be presented during the SAG Portfolio Planning Process.
    - **Other utility actions:**
      - Send draft adjustable savings goal spreadsheets to SAG Facilitator on an annual basis.

- Send draft adjustable savings goals spreadsheets to evaluators to verify adjustments.
- Participate in SAG discussion of draft adjustable savings goals.
- File adjustable savings goal spreadsheets with the Commission within 90 days after the IL-TRM is approved.

## Section 7: Evaluation Policies

- **Subsection 7.1.ii: IL-TRM Administrator Independence.** Independence policy added for the TRM Administrator, which largely memorializes current independence requirements.
  - Utility Actions:
    - Submit the finalized but not yet executed contract with the IL-TRM Administrator to the Commission by letter to the Executive Director.
    - Submit the fully executed contract and scope of work with IL-TRM Administrator as a compliance filing in the Policy Manual Version 2.0 approval docket, within 14 days of execution. This is a requirement for the next contract, beginning in 2020.
    - Include requirements in contracts for provisions in the Policy Manual that describe IL-TRM Administrator obligations.
  - SAG Action:
    - If there are concerns raised related to the IL-TRM Administrator's independence, that party is encouraged to raise a concern with the IL-TRM Administrator and the SAG Steering Committee.
  - IL-TRM Administrator Action:
    - Include requirements in contracts for provisions in the Policy Manual that describe IL-TRM Administrator obligations.
  
- **Subsection 7.5: Evaluator Independence.** Independence policy added for the TRM Administrator, which largely memorializes current independence requirements.
  - Utility Actions:
    - Submit the finalized but not yet executed contract with evaluators to the Commission by letter to the Executive Director for each Plan.
    - Submit the fully executed contract and scope of work with the independent evaluator as a compliance filing in the Policy Manual Version 2.0 approval docket, within 14 days of execution.
    - Ensure that the data used in the evaluations is made available to the Commission upon request.
    - Direct evaluators to perform an ex post TRC Test Cost-Effectiveness analysis annually, and direct evaluators to conduct a cost-effectiveness analysis at the conclusion of the 4-year Plan.
    - Include requirements in contracts for provisions in the Policy Manual that describe evaluator obligations.
    - Include a provision in evaluator contracts that requires evaluator models to be provided or made available to stakeholders upon request who agree to sign protective agreements.
  - SAG Action: If there are concerns raised related to the evaluator's independence, that party is encouraged to raise a concern with the evaluator and the SAG Steering Committee.
  - Evaluator Action:

- Perform an ex post TRC Test Cost-Effectiveness analysis annually, and conduct a cost-effectiveness analysis at the conclusion of the 4-year Plan.
- Include requirements in contracts for provisions in the Policy Manual that describe evaluator obligations.
- Include a provision in evaluator contracts that requires evaluator models to be provided or made available to stakeholders upon request who agree to sign protective agreements.

## **Section 11: Electric Program Administrator Energy Savings and Expenditures**

- **Subsection 11.5: Calculation of Annual Electric Planning Spending Limits.** New policy added for electric utilities to describe the statutory language in FEJA which sets a planning limit on annual electric utility spending for EE Plan cycles.
  - Utility Action: Follow the methodology to estimate the annual budget for the next EE Plan filing.
  - SAG Action: None.