Solicitation of Public Comment on Plan to Foster Statewide Coordination of Statutorily Mandated Natural Gas and Electric Energy Efficiency Programs.

Pursuant to Subsection (k) of Section 8-104 of the Public Utilities Act

January 1, 2012

Subsection (k) of Section 8-104 of the Public Utilities Act ("PUA") requires the Illinois Commerce Commission ("Commission") by January 1, 2012 to "develop and solicit public comment on a plan to foster statewide coordination and consistency between statutorily mandated natural gas and electric energy efficiency ("EE") programs to reduce program or participant costs or to improve program performance." 220 ILCS 5/8-104(k). The Commission is required to issue a report to the General Assembly containing its findings and recommendations by September 1, 2013. This document constitutes the Commission's plan and a solicitation of public comment.

Background:

Electric utilities serving at least 100,000 customers on December 31, 2005 are statutorily mandated to submit EE plans to the Commission that are designed to implement cost-effective EE measures to meet energy savings goals and cost-effective demand response measures to reduce peak demand. 220 ILCS 5/8-103. The energy savings goals set forth in Subsection (b) and the demand reductions set forth in Subsection (c) began for the twelve-month period beginning on June 1, 2008. In the first year, the savings goals were 0.2% of the energy delivered in the year commencing on June 1, 2008. The savings goals gradually increase to 2% of energy delivered in the year commencing June 1, 2015 and each year thereafter. The demand savings goal is to reduce peak demand by 0.1% over the prior year for the year commencing June 1, 2008 and continuing for ten years. The goals set forth in Subsections (b) and (c) can be modified by the Commission in the event that cost increases to the average customer will exceed the percentages set forth in Subsection (d) of the PUA. As of June 1, 2011, the two utilities affected by Section 8-103, Commonwealth Edison

Company ("ComEd") and Ameren Illinois Company ("Ameren"), are operating Commission-approved three-year plans that have modified savings goals for the year commencing on June 1, 2013. The spending limits set the budgets such that the average price per kilowatt hour does not increase more than 2.015% from the price per kWh paid during the year ending May 31, 2007.

Section 8-104 of the PUA requires a gas utility serving at least 100,000 customers on January 1, 2009 to submit a plan to the Commission to implement cost-effective EE measures that reduce gas deliveries.. The natural gas EE goals set forth in Subsection (c) differ from the electric program goals in that reductions from the 2009 energy deliveries are set as the goals rather than reductions over the previous year's deliveries. The programs went into effect on June 1, 2011. The goals for each utility are to achieve annual incremental savings of 0.2% of the 2009 deliveries to eligible retail customers by May 31, 2012. The goals gradually increase such that utilities are required to reach an additional 1.5% reduction by May 31, 2009 and each year thereafter. In the event a utility does not meet an annual goal, it can also meet the goals if the sum of each year's energy savings meets or exceeds the cumulative energy savings requirements for the previous years. The cumulative savings goals through May 31, 2019 are 7.1% of 2009 deliveries to eligible retail customers. Subsection (d) limits spending on EE programs such that the amounts paid by eligible retail customers do not increase by more than 2% in any three-year reporting period. Should the spending limits of Subsection (d) prevent the achievement of goals set forth in Subsection (c), the Commission can modify the energy savings goals.

Coordination and Consistency of Energy Efficiency Programs:

Coordination between gas and electric programs is in its infancy. The electric programs began operating in June 2008 and the gas programs began in June 2011. The budgets and savings goals for gas programs are much smaller than for the electric program. However, these budgets and goals will increase so that by 2014 the budgets will be similar on a percent price increase per unit of energy basis. Under Subsections 8-103(h) and 8-104(l) of the PUA, the utilities that are statutorily mandated to implement EE programs are ComEd (electric), Nicor Gas ("Nicor") (gas), Ameren (gas and electric), Peoples Gas Light and Coke ("Peoples"), and North Shore Gas ("North Shore") (together, "Integrys") (gas).[1] Additionally the Department of Commerce and Economic Opportunity ("DCEO") is charged with achieving a portion of each utility's savings goals with that portion being targeted toward government facilities and low-income households (gas and electric).

Coordination now occurs on a number of fronts. All of these utilities and DCEO participate in a Stakeholder Advisory Group ("SAG"). The SAG originated in 2008 when the Commission ordered the electric utilities to provide a forum for interested stakeholders to receive information and provide comments on their programs approved in dockets 07-0539 and 07-0540 for Ameren and ComEd respectively. The Commission extended the SAG participation to gas utilities in the approval of the respective utilities' plans which were filed in 2010 in dockets 10-0564 and 10-0562 for Peoples/North Shore and Nicor respectively. The SAG allows the utilities to provide progress reports and program operational information with each other and stakeholders

[1] Peoples Gas and North Shore Gas are both owned by Integrys. Section 8-104 allows companies owned by a single parent company to file either joint or separate plans. Peoples and North Shore filed separate plans for the first three-year planning period.

interested in the EE process. Stakeholders also provide their feedback on program operations as well as input on potential avenues to explore for further energy savings. In addition to the utilities and DCEO, stakeholder organizations regularly participating in the SAG include the Office of the Illinois Attorney General, the Citizen's Utility Board, the Natural Resources Defense Council, the Environmental Law and Policy Center, and the City of Chicago.

The Commission also ordered the utilities to develop a statewide technical reference manual ("TRM")[2]. The purpose of the TRM is to provide consistency across utilities in the methodologies used to calculate energy savings from various types of equipment. A TRM is a living document that is updated as needed. Participants in the SAG designed a Request for Proposals to hire a consultant to develop the TRM. Vermont Energy Investment Corporation was selected as the consultant in October 2011 and began work on the TRM in November 2011. The SAG participants will continue to provide comment and assist in the completion of the TRM and its future updates.

In addition to the SAG meetings and the development of a statewide TRM, coordination is taking place between the individual utilities and DCEO. A program named CANDI (ComEd, Ameren, Nicor, DCEO, Integrys) is designed to coordinate efforts to reach and simplify the incentive process for program allies that service Commercial and Industrial ("C&I") customers. CANDI's efforts include an attempt to provide consistent incentive offerings across utility territories, share program best

[2] The development of a TRM was ordered in each utility's 2010 EE plan filing. The Docket Numbers are 10-0562 (Nicor), 10-0564 (Integrys), 10-0568 (Ameren), 10-0570 (ComEd).

practices and the establishment of consistent default measure values. The objective of these actions is to reduce confusion among vendors and contractors and other trade allies who perform services across utility territories.

Ameren, the only integrated gas and electric utility subject to both Sections 8-103 and 8-104, filed an integrated plan in docket 10-0568 between its gas and electric utilities in which costs of joint programs are shared between gas and electric customers. Ameren's gas and electric areas largely overlap each other and to the extent there is not overlap, Ameren's gas territory primarily overlaps municipal or coop electric territories to which the energy savings goals set forth in Section 8-103 do not apply. Although the Commission lacks jurisdiction to require coordination with unregulated utilities, Ameren is currently collaborating with City Water Light and Power ("CWLP") in the Springfield area to provide low flow rinse nozzles to restaurants which are CWLP water customers and Ameren gas customers. Ameren also coordinates with DCEO by sharing information on trade allies for various programs. Additional coordination with DCEO included a grant from DCEO for a CFL recycling program and a grant from DCEO to coordinate a lighting markdown across Ameren, municipal and coop electric territories.

Ameren and ComEd coordinated their efforts by deploying similar ally bonuses to increase program participation, providing similar incentives on competitive large projects, joint marketing through an Illinois Hospital Association sponsorship, the Illinois Food Retailers Association, and the Illinois Black Chamber of Commerce.

Although Ameren is coordinating with the other utilities and DCEO, it does not have geographic overlap with other utilities to the extent that the nonintegrated utilities in the northern portion of the state overlap each other. The ComEd electric delivery area primarily overlaps with the gas delivery areas of Nicor, Peoples and North Shore. Given the population serviced by these utilities and their overlap, coordination between these utilities is likely to affect more households and businesses and lead to more savings at lower costs.

Some examples of coordination that are taking place include[3]:

- **Multi-Family Direct Install**: A program that provides CFLs, low-flow showerheads, and aerators to all units within multi-family buildings. ComEd has joint programs with Nicor and Integrys.
- **Single Family Home Performance Tune Up:** A joint program between Nicor and ComEd that provides CFLs, low-flow showerheads, and aerators to homeowners. Additionally, a comprehensive energy audit is performed and recommendations about air sealing and insulation are provided along with information about incentives.
- **New Construction:** There are both residential and C&I programs designed to promote energy efficient building design. C&I is a ComEd/Nicor joint program. The residential program between ComEd and Nicor will begin in the year commencing June 2012.

[3] The examples listed are not comprehensive. Programs may be discontinued upon evaluation and/or additional programs may be added.

- **Retro-commissioning:** Provides incentives to C&I customers to re-optimize building systems and operations through proper use of controls and other low cost operational modifications. Joint programs between ComEd and Nicor and ComEd and Integrys exist.

Challenges to Coordination:

There are several challenges to coordination. One of the most significant is the difference in the age and experience of the gas utility programs compared to the electric utility programs. Section 8-103 required electric utilities to implement EE programs three years earlier than Section 8-104 required EE programs by the gas utilities. Both sections of the PUA also have a gradually increasing budget for the procurement of energy efficiency. As a result, the electric utilities have larger budgets, larger savings goals as a percentage of deliveries, and more experience managing programs.

The differences in budgets and savings mandates are important because promoting energy savings is contrary to the interests of the utilities. To the extent that utility revenues are tied to sales volumes by usage-sensitive rates, a reduction in sales results in a short-term loss of profit. As such, one would not expect a utility to exceed the savings goals by more than is required to comply with the statute.[4] To date, this expectation has been realized. ComEd discontinued programs in Year 1 of its first plan and the gas utilities filed plans that do not fully utilize their available budgets for the first three program-years. This effect has been mitigated to an extent by the Commission allowing some carry over of electric savings in excess of goals and the gas law's

[4] Savings are uncertain and determined through evaluations of the programs. Utilities estimate savings based on measures incented and/or installed and usually attempt to overshoot the goal in order to withstand ex-post evaluation.

provision to allow mandates to be met through either annual savings or cumulative savings. Given the smaller scale gas programs due to the differences in budgets and savings goals between gas and electricity EE programs at this point, potential coordinated projects are limited in size and scope. Over time, gas budgets and goals are scheduled to increase which will enable additional joint projects with electric utilities.

Coordinated gas and electric programs face some challenges not encountered by stand alone programs such as determining how to share costs and to oversee management of joint programs. Generally, costs are negotiated by the participating utilities on a program-by-program basis. This is an effective method to ensure cost savings as neither utility that is party to an agreement has an incentive to pay more than is necessary to manage a program.

Conflicts of interest between the utilities can arise with respect to implementing joint programs. Most programs are contracted to a program implementer who administers a program on behalf of the utilities. Potential problems include representing the interests of both utilities when unplanned events arise or even assuring that the interests of both utilities are represented during routine events. This is more problematic than in single utility-administered programs because it involves more communications amongst the utilities and between the utilities and program implementers.

Some examples of foreseeable differences between utilities include: (1) different metrics for evaluating vendor performance, (2) different expectations for reporting requirements, (3) different approaches to marketing and communicating branding efforts, and (4) different approaches for handling call center assistance.

Plan:

The Commission plan is outlined below:

1) continue to encourage coordination through SAG and CANDI;
2) monitor development of a statewide TRM and review the validity of the final product;
3) work to generate consensus on legislative proposals to reduce program or participant costs or to improve program performance; and
4) the Commission will solicit comment on the plan to be submitted to the Illinois General Assembly by September 1, 2013 and commits to working with interested stakeholders to incorporate the knowledge gained through experience with the evolving coordination efforts outlined above.

1. Continue to encourage coordination through SAG and CANDI:

Currently, the utilities are developing strategies to coordinate programs and resolve the difficulties that arise with joint programs. The SAG meetings provide a mechanism for the utilities to provide information to and receive comments from interested stakeholders and to share information with each other. Theoretically, cost savings may arise from joint programs through economies of scope. Some programs are not justifiable as a stand alone for one utility and other programs can be done at lower cost by reducing duplication of resources.

Notwithstanding potential savings from economies of scope, coordination does not guarantee program success and does not ensure the lowest cost portfolio of programs. Although it can be less costly per unit of savings when coordination occurs, that does not imply that jointly administered programs necessarily have a lower unit cost than other programs that do not require coordination. In fact, many of the current joint programs have average costs per unit of first year savings that are higher than the overall portfolio average cost for the respective utilities. Thus, coordination requires careful implementation and review. Oversight from the Commission and input from interested parties through SAG will help ensure that the potential benefits of coordination are fully realized. Given the complexity and ever-changing market for energy efficiency, the Commission believes that the best course of action is to maintain communications within the SAG.

2. **Monitor development of the statewide TRM and review the validity of the final product:**

The TRM will provide consistency across utilities in the assumptions used to determine savings from various measures. It should be noted that this does not necessarily imply that the savings for an identical measure will be the same in each utility territory. The TRM is intended to provide an algorithm to determine savings. Several factors that may differ across utility territory can affect savings for some measures. For example, savings by HVAC systems may be affected by building types, and heating and cooling degree days. Lighting use may be affected by the number of daylight hours. Any of these factors may differ by utility territory.

3. **Work to generate consensus on legislative proposals to reduce program or participant costs and to improve program performance:**

Additional methods to reduce the costs of energy efficiency and improve the overall quality of the programs require changes to Sections 8-103 and 8-104. The Commission plans to confer with interested parties on possible statutory improvements.

Several legislative recommendations are currently under consideration. Suggested modifications include (1) increasing planning periods from three years to five years, (2) reducing or eliminating the emphasis on first-year savings, and (3) removing Commission review and approval of DCEO programs.

Every time a plan is filed there is a cost to the utility associated with developing the plan. These costs are passed through to ratepayers and subtract from the funds available to provide savings incentives. The Commission grants flexibility to the utilities in the administration of the plans because it recognizes that the market rapidly changes and the administration of the portfolio can, will, and should deviate from the plans that are filed. Increasing the length of the plan will not materially affect the quality of the programs or the administration of the plan but it will reduce the overall costs to ratepayers and/or free up funds for additional efficiency investments. Additionally, the utilities file reports with the Commission at the end of each year as well as a post-plan report. Increasing the length of the plan to five years reduces the number of post-plan reports and should lead to cost savings or additional energy efficiency investments.

Reducing or eliminating the emphasis on first-year savings potentially increases the benefits to ratepayers in several ways. First, it reduces the incentives for a utility to shut down a program once it reaches its goal. ComEd estimated that its savings for the first Program Year were sufficient to withstand any downward adjustments that independent evaluators may have judged appropriate. As a result, ComEd discontinued its program until the commencement of Year 2. Such actions are rational given the emphasis on first-year savings rather than lifetime savings. Had the goals been tied to cumulative savings, there would have been greater incentive to continue the programs through the entirety of the first year. Starting and stopping programs involves financial costs associated with having to provide information to vendors that programs are no longer available and then again through reaching out to vendors to inform them the programs are available. In addition, there may be costs from convincing vendors to associate themselves with programs perceived to be unreliable and/or sporadic.

Second, longer term savings goals are more consistent with the stated objectives of Subsection (a) of Section 8-103 to reduce or delay the need for infrastructure investment. The emphasis on first-year savings leads to an incentive to focus on measures and programs that have low costs per first year unit of energy savings as opposed to measures and programs with low lifetime per unit costs. As such, programs with one year savings such as consumer behavior modification take emphasis over programs that can save energy for 10 to 20 years or even longer. The advantage of longer term programs is that the savings persist and are more likely to reduce the need for infrastructure investments. Another example of short-term savings goals misaligning with long-term goals is the emphasis placed on lighting efficiency. Efficient light bulbs are a low cost method of achieving savings and compact fluorescent bulbs last for several years. Under the current program, these are an ideal measure for reducing energy deliveries. However, it should be noted that investments in infrastructure are more likely to be needed to meet demands in peak periods (usually daylight hours in the summer months). Lighting measures in residential units are used primarily in the evening. Savings through such measures does little to avoid or delay the need for additional infrastructure investment.

The Commission sees merit in modifying the savings goals such that the Commission is charged with determining the best method of avoiding or delaying the need for infrastructure investment within a budget constraint that the General Assembly deems appropriate.

Removing the Commission oversight of DCEO's plans to achieve its portions of the energy savings goals would also reduce the costs to ratepayers. At present, each utility must coordinate with DCEO to determine the savings for which DCEO is responsible and for which the respective utility is responsible. These communications have a cost to both DCEO and the respective utilities. The development and filing of a plan also has a cost. Eliminating Commission oversight of DCEO's portion of a plan reduces many of these costs and provides either savings or increased funds available for EE investments. DCEO is also overseen by the Governor's Office and has decades of experience managing energy programs. It would be preferable to redesign the laws such that the funding that DCEO receives and the purposes for which those funds may be used are clearly specified but oversight of the DCEO programs are left to the Governor's Office.

4. **Solicitation of Comments:**

The Commission will solicit comment on the plan to be submitted March 30, 2012 and commits to working with interested stakeholders as the plan evolves through experience with evolving coordination efforts as outlined above.

Comments on this plan are to be sent to:

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Comments will the posted on the Commission website: www.icc.illinois.gov

Conclusion:

While energy efficiency programs are relatively new to Illinois and their coordination even newer, the Commission believes such coordination is beneficial and is committed to encouraging it. The Commission also believes that working with stakeholders to review results of coordination activities will enable the Commission not only to enable benefits today, but result in a better long range plan to recommend to the legislature by September 2013. The Commission welcomes the public's comments.