Gas Energy Efficiency Plan Final Orders
GPY4-6
DRAFT Directives to SAG – June 19, 2014

ICC directives to the SAG are highlighted in yellow. Notes and Action Items are in red font.

<u>Peoples Gas / North Shore Gas – 13-0550 – Commission Analysis and Conclusions</u>

- **EE Plan (p4):**
    - The minimum requirements for Commission approval of NS/PGLs Plans are set forth in Sections 8-104(f) and 8-104(g) of the Act. The Commission has reviewed the Petition, testimony, record evidence, and discovery in this Docket, and finds that while certain portions of the plan should be modified or altered, ultimately the plan meets the minimum requirements of the Act once modified. The Commission directs NS/PGL to submit a Revised Plan within 30 days of the date of this Order in a compliance filing in this Docket that incorporates the modifications discussed and adopted below.
- **Section 8-104(f)(1) Modified Energy Savings Goals (7-8):**
    - The Utilities have demonstrated, as required under 220 ILCS 5/8-104(d), by substantial evidence that the natural gas savings goals under 220 ILCS 5/8-104(c) are highly unlikely to be met without exceeding the applicable spending limits in any 3-year reporting period. The combination of declining funds available for programs in Plan Period 2 relative to Plan Period 1, the increased statutory goals, and the decreased price of natural gas make it unlikely that Peoples Gas or North Shore can achieve their statutory goals.
    - Notwithstanding, the Utilities shall make every reasonable effort to be innovative in reevaluating and adjusting each of their savings goals based on the Commission's determinations as to particular programmatic adjustments made in this Order. The Commission recognizes that the modified savings goals may be adjusted downwards based on the adoption of additional programs, including residential and multi-family air sealing programs. As the air sealing program may have reduced savings per dollar spent during Plan Period 2, but will lead to greater savings for residential customers over those measures' useful life, the Commission considers a downward adjustment in the modified savings goal, to be supported in a compliance plan filing to be appropriate.
    - In addition, the Companies, to the extent that the modified savings goals are adjusted by elimination of measures with TRCs less than one, shall reflect such modified savings goals in the compliance plan.
    - Finally, in Program Year 4, the Companies shall conduct a wasted energy study as suggested by ELPC. At the conclusion of the wasted energy study, the Companies shall present the results of the wasted energy study to the SAG. To the extent that cost-effective measures and programs are identified and can be reasonably implemented in accordance with the goals of savings, market transformation, and long-lived measures achieving, the Companies shall submit revised modified savings goals in a revised compliance filing for Program Year 5 to the extent that said modified savings goals would be changed by the additional measures and programs.
        - **Questions for PG-NSG:** When will the study be completed? When to present results to SAG?
        - **Action Items:** Proposed Timeline – discuss with SAG in Spring 2015.
            - PG-NSG is currently in the process of finalizing the RFP/SOW document for this work. Input has been directly solicited from parties that had

expressed an interest in this work. Per the final order, the study will be completed within 6 months of receipt of the final order.
- PG-NSG is not planning on presenting plans for completion of the study. NOTEs: If SAG would like to hear about plans, PG/NSG will present. PG/NSG has presented to R. Kelter and incorporated all of his comments.

- **Section 8-104(d) Spending Limits (p10):**
  - The Commission's previous interpretation of Section 8-104 have shown that Sections 8-104(c) and 8-104(d) apply to savings and spending for all retail customers and neither savings goals or spending caps are determined by a particular customer class. Particularly since Section 8-104(i) assigns penalties to a gas utility for failing to meet the entire statutory savings under Section 8-104(c), as modified under Section 8-104(d). Given the application of this standard in numerous dockets previously, the Commission will not deviate here. Therefore CUB's proposal that the 2% spending "screen" for the Rate Impact Cap be applied to each customer class is rejected.
- **On Bill Financing and Other Financing Mechanisms (p12):**
  - North Shore/Peoples Gas shall submit additional detail regarding their administrative costs related to the OBF and the level of funding anticipated by the Petitioner as well as how they plan to integrate OBF as a means to reduce program costs overall.
    - PG-NSG is not planning on presenting OBF details to the SAG.
    - Follow-Up: Update – expanding OBF to entire home offerings. PG/NSG can present further if interest.
- **Residential and Business Energy Efficiency Measures and Programs (p26-27):**
  - The Companies have indicated that they will adopt air sealing program/measures for residential customers and multi-family customers without pre- and post-radon testing if ordered by the Commission. The Commission orders the Utilities to adopt said air sealing program/measures, and the Companies shall not require pre- or post-radon testing as part of the program. The adoption of the air sealing program/measures shall be expressed in their compliance filing, with the portfolio of program and measures adjusted to accommodate air sealing. The Commission recognizes that while modified goals may need to be adjusted downwards to accommodate such air sealing programs and measures, air sealing measures have long lasting energy efficiency benefits extending for many years beyond Plan Period 2.
  - The Companies are directed, to the extent practicable, to jointly implement programs with ComEd. The Utilities, in joint implementation of programs, should strive to provide a streamlined approach for customers to participate in the programs.
  - With regard to the proposed C&I Programs, the Commission shares the AG's concern that the Companies' proposed program lacks sufficient detail and marketing approaches that would enable this customer class to benefit from these programs that all parties believe are valued efficiency investments. The Companies simply saying they *might* consider providing a custom incentive, but not actually marketing these services or aggressively helping to identify and promote efficiency opportunities in this important market segment, is not sufficient, and certainly does not reflect best practices in the efficiency industry. We agree and the evidence supports a finding that new construction is an important "lost opportunity" efficiency resource because typically the costs of incremental improvements in efficiency are low compared to the benefits, and failure to capture them can result in the opportunity being "lost" for the lifetime of the

building. That is the case because it can be much more expensive to go back and retrofit buildings after they are constructed.

- We hereby order the Companies' revised Plan to include actual plans to market to new construction contractors, and coordinate seamlessly with ComEd on all C&I new construction projects to address all cost-effective gas and electric efficiency measures, and also allow new construction projects to take advantage of the standard incentives available to existing facilities, where appropriate.
- Further, in their rebuttal testimony, the Companies agreed with the AG that creating a Business Existing Facilities program for large C&I customers that includes direct installation of efficiency measures is unusual and not appropriate. As the AG explained, direct installation services are offered for small customers because they have greater barriers, and lack the resources and sophistication to effectively self-direct efficiency installations. They also tend to have a limited number of efficiency opportunities that are fairly standard and common across most buildings. Larger customers, however, generally have the largest efficiency opportunities among more site-specific efficiency measures, and have greater resources (both technical, time, and financial) to fully engage in more traditional program models. The direct installation plans the Companies are proposing are only very limited low-cost measures, and overall account for just 6% of the total program savings. Such services can be very expensive and, given the limited budgets, seem inappropriate for the Companies' larger customers.
- As such, the Companies are hereby ordered to include in their revised Plan what amounts to a retro-fit program that includes a multi-prong approach of Direct Install, Engineering Assistance, Standard Incentives, Custom Incentives and Gas Optimization measures that fits the particular needs of small and large customers, as appropriate.
- With regard to the Small Business Direct Installation Programs, the Companies appear to have offered to add the programmable thermostats to this Business program in their modified Plan filing. The Commission hereby orders them to specifically do so. The Companies, however, were silent on the inclusion of the additional measures to be included as recommended by the AG. The Companies likewise did not raise the issue in their Briefs. No other party challenged the AG's recommendation.
- The Commission concurs with the AG's assessment that these other measures should be added to the program in order to ensure a robust, cost-effective Small Business Direct Install program. The Commission hereby orders the Companies to add, in addition to the programmable thermostat, the other measures recommended by the AG to ensure that the Small Business Direct Installation program includes a comprehend

Comment [CC1]: Note: This is an error, as the sentence is not completed in the Order.

- **Section 8-104(f)(5) Electric and Gas Benefits in TRC Test (p31-32):**
  The Commission notes that Section 8-104(b) of the Act states:

  > "[C]ost-effective" means that the measures satisfy the total resource cost test which, for purposes of this Section, means a standard that is met if, for an investment in energy efficiency, the benefit-cost ratio is greater than one. The benefit-cost ratio is the ratio of the net present value of the total benefits of the measures to the net present value of the total costs as calculated over the lifetime of the measures. The total resource cost test compares the sum of avoided natural gas utility costs, representing the benefits that accrue to the system and the participant in the delivery of those efficiency measures, as well as other quantifiable societal benefits, including avoided electric utility costs, to the sum of all incremental costs of end use measures (including both utility and participant contributions), plus costs to administer, deliver, and evaluate each demand-side measure, to quantify the net

savings obtained by substituting demand-side measures for supply resources. In calculating avoided costs, reasonable estimates shall be included for financial costs likely to be imposed by future regulation of emissions of greenhouse gases. The low-income programs described in item (4) of subsection (f) of this Section shall not be required to meet the total resource cost test.

  - 220 ILCS 5/8-104(b) (emphasis added). The statute requires that quantifiable benefits and costs should be included in the cost-effectiveness analysis, including those related to an electric utility. ComEd's costs are quantifiable, as evidenced by the fact that the Commission approved ComEd's Plan which quantified costs and benefits for joint programs planned to be implemented with the Companies, in ICC Docket No. 13-0495. Accordingly, the Companies are directed to produce the measure, program, and portfolio cost-effectiveness estimates that include both gas and electric quantifiable benefits and costs in their Compliance Filing in this proceeding, and in future Plan filings.

- **Section 8-104(f)(8) Independent Evaluation Contract (p33-34):**
  - The Commission agrees that ensuring the evaluator maintains their independence from the Companies is critical. Staff's proposals, designed to ensure the independence of the evaluators, are reasonable and are hereby adopted. The Commission directs the Companies to file the independent evaluation contract and scope of work in this docket within fourteen days of execution. The Companies shall continue to include language in the independent evaluation contracts such that the Commission can: (1) terminate the contract if the Commission determines the evaluators were not acting independently; and (2) prevent the Companies from terminating the contracts without Commission approval. The Companies have no objection to these recommendations.
  - Consistent with our finding in Docket No. 13-0498, the Commission finds that the statute requires an independent evaluator, rather than the Companies, to perform the cost-effectiveness evaluation. Accordingly, Staff's position is adopted and the independent evaluator is responsible for performing the three-year ex post cost-effectiveness analysis per Section 8-104(f)(8) of the Act.
- **Section 8-104(i) Savings Goal Compliance Proceeding (p34):**
  - The Companies are directed to petition the Commission to initiate the three-year savings goal compliance proceeding within 60 days of receipt of the final evaluation reports. The Commission agrees with Staff that for the sake of efficiency, the three-year cost-effectiveness results by program shall be reviewed and reported to the Commission in the three-year savings goal compliance proceeding pursuant to Section 8-104(f)(8) of the Act.
- **Section 8-104(g) 3% Cap on Spending on Breakthrough Equipment (p35-36):**
  - The Utilities' statutory savings goals have been substantially modified downward in this Plan as a result of the spending limitation set forth in Section 8-104(d) of Act. Therefore, every dollar spent on "breakthrough equipment and devices" means a dollar that is not spent on efficiency measures that provide for more certain savings benefits. By imposing such limitation on a specific cost category within the statute, the General Assembly intended that such costs be constrained so as to help achieve the policy objectives of the statute, i.e., the reduction of direct and indirect costs to consumers.
  - For these reasons, it is more important than ever that the Utilities comply with the Section 8-104(g) statutory spending limitation. To ensure such compliance, the Commission sees that a definition for "breakthrough equipment and devices" is needed, and believes this question is best addressed by the SAG. There a clear definition with a few examples of the energy efficiency measures and programs that would fall under

such definition can be developed and presented to the Commission for approval. Accordingly, the Commission directs the Utilities and Staff to conduct a workshop with other SAG participants on a clear definition of breakthrough equipment and devices that could be applied during Plan 2. Additionally, the Utilities should include within their reports to the Commission any definition adopted, the measures that fall under the definition, and, if necessary, any modifications to the Plan that the Utilities make to bring the Plan into compliance with Section 8-104(g) of the Act.

        - **Action Item:** Check with Staff/utilities about timing for workshop, next steps.
            - **Proposal:** SAG to schedule/hold workshop in early fall to discuss.
            - **Follow-Up**: ICC/Utilities will hold workshop and invite interested SAG participants. Final draft definition will be circulated to the entire SAG for review and comment.

- **IL-TRM Measure Codes (p36):**
    - The Commission agrees with Staff that the IL-TRM measure codes should be provided in the spreadsheets that are used to adjust the savings goals and also included in future Plan filings for ease of review and transparency across programs and portfolios.
- **Portfolio Flexibility, Cost-Effectiveness, and Reporting (p42-43):**
    - As an initial matter, consistent with the Commission's prior Orders, the Commission reiterates that Section 8-104(f)(5) of the Act requires a utility's entire portfolio to be cost-effective in order for the Commission to approve the Plan, and does not require every single measure or program to be cost-effective. That being said, this principle should not be construed as a pass for NS/PGL to eliminate careful consideration with respect to the addition of cost-ineffective measures during Plan implementation. The Commission recognizes that the addition of cost-ineffective measures may reduce net economic benefits for consumers. Thus, the Commission finds it reasonable for the Companies to include explanations for the cost-ineffective measures in their Plan in their compliance filing. The Commission agrees that reporting to the Commission TRC results for new measures is appropriate.
    - The Commission recognizes that flexibility in Plan implementation is critical to the success of energy efficiency programs in Illinois. The Commission also recognizes that any grant of flexibility should be followed by transparency and clear policy guidance concerning implementation in order to ensure the fruition of the policy objectives specified in the energy efficiency.
    - The Commission finds that there is little need to deviate from their established policy regarding portfolio flexibility. The proposals put forth by the Companies and by Staff are rejected. Instead, the Commission adopts the AG's proposal for flexibility as it conforms with existing Commission policy without giving too much discretion to the Companies. Thus, the Companies should fully discuss with the SAG prior to initiating any changes to portfolio; any shift in the budget that results in a 20% or greater change to any program's budget, or that eliminates or adds a program. Further, the Companies shall not shift more than 10% of spending between residential and C&I sectors without Commission approval. The Companies shall report these modifications to the Commission on a quarterly basis. The Companies shall not modify their plans such that it no longer meets the statutory requirements for allocations to the low income and state and local government markets.
    - Finally, North Shore/Peoples Gas is directed to continue their existing reporting practices to the SAG involving program changes that were adopted in the Companies' first plan filing, ICC Docket No. 10-0564.

- **Action Item:** Existing reporting practices will continue for program changes and budget shifts.
- **Evaluation – Free Ridership and Spillover (p46):**
  - Consistent with the decision in Docket 13-0498, the Commission finds that excluding spillover from the NTG calculations might unfairly reduce a program administrator's calculated savings, but because it can be costly to determine spillover, the Commission will not require that it always be included. Thus, the Commission directs evaluators to consider spillover while being mindful of the costs to measure spillover and the likely impacts of such measurements.
  - Staff's proposal to consider a portfolio-wide spillover survey is worthwhile and the Companies should take it to their evaluators and the SAG for further development and implementation as soon as practical.
  - **Action Item:** Proposal to schedule spillover survey discussion teleconference TAC for Tuesday, July 15th from 10:00am-Noon. Evaluators will develop a presentation and circulate to the SAG ahead of July 15th.
- **Evaluation – Modified Illinois Net-To-Gross Framework (p50-51):**
  - The Companies have indicated that they agree with the AG that consistent with our findings in Docket No. 13-0498 and our decision to revisit our findings in ComEd Docket No. 13-0495 on Rehearing, the Commission finds that adoption of a NTG Framework that ensures that updated NTG values reflect the best estimates of likely future actual NTG values by taking into consideration SAG input, the evaluator's expertise, and the best and most up-to-date information, is consistent with the goal of ensuring cost-effective efficiency programs. The Commission notes that consistency regarding this particular procedure should increase efficiencies within the SAG by encouraging all parties to negotiate in good faith to reach consensus, and will also avoid the scenario identified in the AG Application for Rehearing in Docket No. 13-0495, where a stakeholder could force nonconsensus to ensure that a known default NTG value would be applied. Instead, if the SAG cannot reach consensus, this modified procedure will require that the independent evaluator determine the final value based on SAG input, the evaluator's expertise, and the best and most up-to-date information. The Commission appreciates the balanced approach this methodology provides by retaining the Companies' desire to mitigate risk by ensuring prospective-only application of NTG values for NS/PGL. Adoption of the NTG framework set forth in is also supported by the record in this docket.
  - Accordingly, the Commission directs the Companies, their evaluator, and SAG to comply with the following NTG framework for deeming NTG ratio values:
    - Prior to March 1st of each year, the independent evaluator will present their proposed NTG values for each program to the SAG, intended to represent their best estimates of future actual NTG values likely to occur. The purpose of this meeting will be for the independent evaluator to present their rationale for each value and provide the SAG, in their advisory role, with an opportunity to question, challenge and suggest modifications to the independent evaluator's values.
    - If the SAG reaches consensus regarding an NTG value prior to March 1, then SAG's decision shall be adopted – even if it is different from the evaluator's original proposal. If consensus is not reached, the independent evaluator will then review this feedback and make the final determination of values to be used for the upcoming year taking into account all comments and discussions, with

the intent of making their best estimate of likely future actual NTG values. All NTG values shall only be applied prospectively beginning June 1 of each year.

- **Action item:** Discuss harmonizing scheduling among program administrators.
  - Nov. 1: Res NTG Values
  - Dec 1: C&I NTG Values
  - SAG teleconferences (3) scheduled in January to reach consensus.
  - Dates subject to caveats (such as availability of data).

- **Evaluation – NTG Ratio Values for Program Year 4 (p52):**
  - The Commission finds Staff's proposal, to which NS/PGL did not object, reasonable and therefore it is adopted. For PY4, SAG, NS/PGL, Staff, and NS/PGL's evaluators should begin immediately to attempt to reach consensus for NTG values consistent with Staff's recommendation. However, the Commission acknowledges that depending on the date of the final Order in this proceeding, the information may not be available at the time of the compliance filing. In that circumstance, NS/PGL is directed to provide the information as soon as possible.
    - **Action Item:** Teleconference scheduled for Tuesday, June 24th from 9:00-10:00am.
- **Evaluation – Consistent IL-NTG Methods (p54-55):**
  - The Commission agrees with Staff that Commission consideration and approval of statewide net savings methodologies should be accomplished in conjunction with the existing Commission-approved process for approving statewide gross savings methodologies. Staff's proposal is efficient, reasonable, and would likely reduce litigation costs for all parties by avoiding the need for two separate docketed proceedings. Staff's proposal concerning the establishment of consistent statewide IL-NTG Methods is hereby adopted and NS/PGL are directed to comply with the terms of Staff's proposal and involve the evaluators.
  - To help ensure the independence of the evaluators, to improve efficiency in the evaluation process, and to ensure programs across the state as delivered by the various program administrators can be meaningfully and consistently evaluated, the Commission hereby adopts Staff's recommendation that consistent statewide NTG methodologies be established for use in the evaluations of comparable programs offered by different Illinois program administrators. The Commission agrees with Staff that the current program evaluators should take the lead in compiling and formalizing standard methodologies for NTG in Illinois taking into consideration SAG input. Given the existing Plan 1 evaluators are under contract with the utilities for the evaluation of the PY3 energy efficiency programs, which have not yet started, it is appropriate for these existing evaluators to work on the IL-NTG Methods over the next year.
  - The Commission hereby directs North Shore/Peoples Gas to require their evaluators to collaborate with the other state evaluators and the SAG to reach consensus on the best and most defensible well-vetted approaches to assessing NTG in particular markets for both residential and non-residential energy efficiency programs in a manner consistent with the direction set forth in Staff Exhibit 1.0.
  - **Action Item:** To be discussed at Tuesday, June 24th EE SAG meeting as an issue to be included in EE Policy Manual.
- **Evaluation – Creation of an Illinois Energy Efficiency Policy Manual (p56):**
  - Consistent with our findings in Docket Nos. 13-0495, 13-0498, and 13-0499, the Commission directs the Utilities to work with their evaluators, Staff, the other Illinois

utilities, DCEO, and the SAG to complete an Illinois Energy Efficiency Policy Manual to ensure that programs across the state and as delivered by various program administrators can be meaningfully and consistently evaluated.
  - **Action Item:** To be discussed at Tuesday, June 24th EE SAG meeting.
- **Evaluation – Alignment of Schedules for NTG and IL-TRM Updates (p57):**
  - Consistent with our findings in Docket No. 13-0498, the Commission hereby adopts the IL-TRM and NTG schedules set forth in Staff Exhibit 1.2 as follows:
    - IL-TRM Updates
      - July 1st: the TRM Technical Committee informs the evaluators and others which measures are high or medium priority measures, for which work papers need to be prepared.
      - August 1st: updates to existing measure work papers to clarify terms or approaches will be completed.
      - October 1st: completely new work papers for new measures will be completed.
    - NTG Updates
      - November 1st: draft residential NTG estimates will be completed for the program year that ended May 31st.
      - December 1st: draft commercial/industrial NTG estimates will be completed for the program year that ended May 31st.
    - In order to ensure the SAG has adequate time to review the evaluators' NTG recommendations before March 1 under the NTG Framework, the Commission directs the Utilities to require their evaluators to make best efforts to provide the evaluators' initial recommendations for deeming NTG ratios for residential programs by November 1st and for non-residential programs by December 1st.
    - **Action item:** Discuss harmonizing scheduling among program administrators.
- **Adjustable Savings Goal (p62):**
  - The Commission notes that the IL-TRM and NTG values upon which adjustments to savings goals would be made are not set by NS/PGL, but rather are values that were either provided by independent evaluators and the SAG/TAC, agreed-to by the parties or derived from a Commission approved process. The Commission notes that no evidence has been presented that the Utilities are not committed to energy efficiency or integrity in administering their plan portfolios. The Commission also notes the issues that have been raised about the possible threats to the energy efficiency programs should this request be granted.
  - The Commission notes that Staff's argument that the most-up-to-date and defensible information should be used when setting NTG and TRM values prospectively is undisputed. That fact, however, does not justify permitting the Companies to continually adjust the savings goals established by the Commission in this docket in accordance with NTG and TRM annual updates. The Act explicitly established performance targets and penalties to utilities for failure to meet these energy savings performance targets. Clearly the legislature intended for the utilities to absorb some performance risk or they would not have included these penalty provisions. Adoption of the Utilities' request eliminates any performance risk. Staff witness Hinman, herself, admitted that the request amounts to a "set-it-and-forget-it" approach to portfolio management. Staff does not explain how filing a report evidences a commitment to making the necessary adjustments to programs to ensure best practices and maximum

cost- effectiveness. For all of these reasons, we concur with both the Attorney General and ELPC that the Companies' proposal should be rejected.

- **Proposed Studies (p64):**
  - For the reasons stated above, the Commission directs North Shore/Peoples Gas to conduct their own waste study to optimize their savings goals based on the potential untapped savings that could be earned from developing programs addressing behavioral waste. In addition, the Commission directs NS/PGL to submit their waste study and any other potential studies to the SAG for review and feedback on their content.
    - PG-NSG is not planning on presenting plans for completion of the study.
    - PG-NSG has a PY 4 – 6 potential study completed. No plans now for additional potential study. Pat will send Celia potential studies.

Nicor Gas – 13-0549 – Commission Analysis and Conclusions

- **EE Plan (p4):**
  - The minimum requirements for Commission approval of the Company's Plan are set forth in Section 8-104(f) of the Act. The Commission has reviewed the Petition, testimony, record evidence, and discovery in this Docket, and finds that while certain portions of the Plan should be modified or altered, ultimately the Plan meets the minimum requirements of the Act once modified. The Commission directs the Company to submit a Revised Plan within 30 days of the date of this Order in a compliance filing in this Docket that incorporates the modifications discussed and adopted below.
- **Section 8-104(f)(1) Modified Energy Savings Goals (p7-8):**
  - The Commission agrees that Nicor's calculations of its statutory savings goals and the budget cap are accurate – Section 8-104(c) requires Nicor to achieve savings goals during its Second EEP of 33,027,000 therms for its PY4, 41,283,000 therms for PY5, and 49,540,000 therms for PY6. The Commission further agrees that, pursuant to Section 8-104(d), the 2% budget cap for the Second EEP is $124.1 million, and that pursuant to Section 8-104(e), 75% of the available budget – approximately $93 million – will be allocated to the Company.
  - The Company has demonstrated, through substantial evidence, that it is highly unlikely that it will be able to achieve the statutory savings requirements without exceeding the statutory spending limits imposed by the Act. The Commission agrees with Nicor that it is faced with a significant increase in statutory savings goals during its Second EEP, and further agrees that the Company is facing a significant decline in national natural gas prices since the enactment of Section 8-104. As Nicor accurately noted, the Commission pointed out the effect of these declining prices in its *Report to the Illinois General Assembly Concerning Coordination Between Gas and Electric Energy Efficiency Programs and Spending Limits for Gas Utility Energy Efficiency Programs*. The Commission anticipated that, as a result of the downward trend in natural gas prices, natural gas utilities were unlikely to meet unmodified savings goals.
  - The Commission has consistently adopted this view, and has approved modified savings goals in both the Ameren Illinois and ComEd EEP dockets, Docket Nos. 13-0498 and 13-0495, respectively. The Company is directed to file a Second EEP that includes modified savings goals consistent with the conclusions set herein within 30 days of this Order.

- **10% Residual Risk Adjustment (p11):**
    - The Commission rejects the Company's 10% residual risk adjustment. Consistent with our findings in ICC Docket No. 13-0495, the Commission finds that the Company's energy savings goals should be set at the level it is projected to be able to achieve, without an artificial 10% residual risk adjustment. The Company is directed to remove the 10% residual risk adjustment when submitting its Revised Plan.
- **Energy Efficiency Measures and Programs (p18):**
    - The Company's budget is limited and should be carefully allocated to ensure maximum benefits to ratepayers. Further, the Commission notes that the Company does not contemplate being able to achieve the unmodified statutory energy savings goals set forth in Section 8-104(c) of the Act within the budget constraints set forth in Section 8-104(d) of the Act. The Commission wishes to encourage joint program implementation where possible because these joint dual fuel energy efficiency programs provide benefits to consumers by offering both gas and electric energy efficiency measures at the same time, thereby saving costs and reducing customer disruption. The Commission hereby finds that the Company already is jointly implementing programs with ComEd to the extent practicable in order to provide a streamlined approach for customers to participate in programs offering both electric and gas savings energy efficiency measures. The Commission also notes that Section 8-104(k) of the Act encourages statewide coordination and consistency between the gas and electric energy efficiency programs and the Commission's directive herein should help foster such statewide coordination and consistency. Notwithstanding the estimated shortcoming in savings, the Commission finds that Nicor should continue its BES program and explore ways to make it more cost-effective including expansion. The Commission's finding here assumes that the results of the pilot support going forward with the program, and the Commission orders Nicor to submit the pilot results to the Commission as soon as possible.
    - The Company is further directed to shift funds from the cost-ineffective tankless water heater measures to the cost-effective joint programs the Company currently implements with ComEd. The Commission declines Staff's request to require a filing with the Commission to the extent the Company wishes to deviate from the Commission-approved Plan and discontinue offering a program jointly implemented with ComEd. The Commission finds that requiring Commission approval before the Company may make a program change such as this runs counter to the flexibility we grant to Nicor Gas below. One of the conditions of this flexibility is that Nicor discuss with SAG, prior to initiating the change, "any shift in budget that results in a 20% or greater change to any program's budget, or that eliminates or adds a program." Docket No. 10-0562 at 43-44. In addition, requiring such Commission approval in a formal proceeding may increase the costs of administering the Company's portfolio and jeopardize energy savings depending upon the extent of the ligation at issue.
    - Finally, the Commission sees merit in ELPC's proposal concerning the Business Energy Efficiency Rebates Program. Therefore, the Commission hereby directs Nicor Gas to increase the savings attributable to this program in the Company's Revised Plan in a manner consistent with ELPC's recommendation.
    - **Action Item:** Existing reporting practices will continue for program changes and budget shifts.
- **Section 8-104(f)(7) Tariff Design Changes to Lower Customer Monthly Charge (p22):**

- The Commission rejects ELPC's request to initiate a separate proceeding to increase volumetric distribution rates in order to incent greater gas conservation. The Commission finds that ELPC's request would be better addressed in a general rate case so that the totality of factors impacting rates can be considered.

- **Section 8-104(f)(8) Independent Evaluation Contract and Cost-Effectiveness Analysis (p25):**
  - The Commission agrees that ensuring the evaluator maintains its independence from the Company is critical. Staff's proposals, designed to ensure the independence of the evaluators, are reasonable and are hereby adopted. The Commission directs the Company to file the independent evaluation contract and scope of work in this docket within fourteen days of execution. The Commission directs the Company to continue to include language in the independent evaluation contracts such that the Commission can: (1) terminate the contract if the Commission determines the evaluators were not acting independently; and (2) prevent the Company from terminating the contracts without Commission approval.
  - The Commission finds that the statute requires an independent evaluator, rather than the Company, to perform the *ex post* cost-effectiveness evaluation. While the Commission understands the AG and the Company's concerns regarding limited evaluation funds, the Commission cannot ignore the plain language of the statute requiring an independent cost-effectiveness analysis. Accordingly, Staff's position is adopted and the independent evaluator is responsible for performing the three-year *ex post* cost-effectiveness analysis per Section 8-104(f)(8) of the Act.
  - The Commission notes Nicor Gas' expressed concerns that this finding could generate an inference that Nicor Gas' current process utilized for the first program years of Plan 1 somehow is not independent. The Commission agrees that given the Company performed the initial cost-effectiveness analysis rather than the independent evaluator for the first program year, such cost-effectiveness analysis cannot be deemed truly "independent" from the Company. The Commission notes that this lack of impendence for this single year cost-effectiveness analysis is not a violation of Section 8-104(f)(8) of the Act. Rather Section 8-104(f)(8) of the Act requires that the three-year cost-effectiveness analysis must be independent, as opposed to a single year cost-effectiveness analysis. That being said, the Commission notes that there are likely efficiencies in having the independent evaluator perform both the single year and the three-year ex post cost-effectiveness analyses. Finally, the Commission notes that this decision should not be construed as limiting Nicor Gas from performing its own cost-effectiveness analysis, however, the independent evaluator is entirely responsible for performing the three-year independent cost-effectiveness analysis pursuant to Section 8-104(f)(8) of the Act.
- **Section 8-104(i) Savings Goal Compliance Proceeding (p26):**
  - The Company is directed to petition the Commission to initiate the three-year savings goal compliance proceeding within 60 days of receipt of the final independent evaluation reports. The Commission agrees with Staff that, for the sake of efficiency, the three-year independent cost-effectiveness results by program shall be reviewed and reported to the Commission in the three-year savings goal compliance proceeding pursuant to Section 8-104(f)(8) of the Act.
- **Portfolio Flexibility, Cost-Effectiveness, and Reporting (p38-39):**
  - As an initial matter, the Commission reiterates that Section 8-104(f)(5) of the Act requires a utility's entire portfolio to be cost-effective in order for the Commission to approve a Plan, and does not require every single measure or program to be cost-

effective. However, it is expected that the Company will not eliminate careful consideration with respect to the addition of cost-ineffective measures during Plan implementation. The Commission recognizes that the addition of cost-ineffective measures reduces net economic benefits for consumers. The Commission notes that the Company is not able to meet the unmodified statutory energy savings goals without exceeding the budget cap and thus it does not make sense for the Company to promote energy efficiency measures that produce negative net benefits for ratepayers. Thus, the Commission finds it reasonable for the Company to include explanations for any necessary cost-ineffective measures in its Revised Plan in its compliance filing. The Commission agrees that reporting to the Commission TRC results for new measures in the Company's quarterly reports is appropriate.

- The Commission recognizes that flexibility in Plan implementation is critical to the success of energy efficiency programs in Illinois. The Commission also recognizes that any grant of flexibility should be followed by transparency and clear policy guidance concerning implementation in order to ensure the fruition of the policy objectives specified in the energy efficiency statute. Therefore, the Commission grants the Company's request for flexibility in implementing its Plan, subject to the same conditions we applied to the Company's grant of flexibility in Docket No. 10-0562 for the Company's first three-year Plan. Nicor must fully discuss with the SAG, prior to initiating the change, any shift in the budget that results in a 20% or greater change to any program's budget, or that eliminates or adds a program and it cannot shift more than 10% of spending between residential and business sectors without Commission approval. The Company shall not modify its plans such that it no longer meets the statutory requirements for allocations to the low income and state and local government markets.
- Additionally, the Commission grants the Company's request to continue its existing reporting practices to the SAG involving program changes and budget shifts that were adopted in the Company's first Plan filing, ICC Docket No. 10-0562.
- **Action Item:** Existing reporting practices will continue for program changes and budget shifts.

- **Evaluation – Consistent IL-NTG Methods (p41-42):**
  - The Commission believes that Staff's recommendations concerning Commission adoption of consistent statewide net-to-gross methodologies ("IL-NTG Methods") for use by the evaluators are reasonable and will aid in future evaluation of the energy efficiency programs. To help ensure the independence of the evaluators, to improve efficiency in the evaluation process, and to ensure programs across the state as delivered by the various program administrators can be meaningfully and consistently evaluated, the Commission hereby adopts Staff's recommendation that consistent IL-NTG Methods be established for use in the evaluations of comparable energy efficiency programs offered by different Illinois program administrators. The Commission notes that Section 8-104(k) of the Act encourages statewide coordination and consistency between the gas and electric energy efficiency programs and Staff's proposal would help ensure consistency in the evaluation of program performance. The Commission notes that this directive is not to create entirely "new" NTG methodologies for every energy efficiency program, but rather to assess NTG methodologies and survey instruments that have been used to evaluate energy efficiency programs offered in Illinois, and to compile the most justifiable and well-vetted methodologies (or potentially combine certain components from the existing approaches to better represent the most

justifiable and well-vetted method consistent with best practices) in an attachment to the Updated IL-TRM that would get submitted to the Commission for approval. The Commission notes that the IL-NTG Methods will be flexible and adaptable to multiple program designs and budgets and tailored to appropriately assess the specifics of each of the program administrators' energy efficiency programs, consistent with standard NTG methodologies adopted in other states that were filed in this proceeding. The Commission agrees with Staff that in the interest of efficiency, the current program evaluators should take the lead in compiling and formalizing standard methodologies for NTG in Illinois taking into consideration SAG input. Because the existing Plan 1 evaluators are under contract with the Company for the evaluation of the program year three energy efficiency programs, it is appropriate for these existing evaluators to work on and complete the compilation of the IL-NTG Methods over the next year. The Commission recognizes that each year considerable time may be spent vetting NTG methodologies for each program evaluation separately for each utility under the existing evaluation plan review practices; adoption of IL-NTG Methods would save on these limited evaluation resources by having a common reference document for the evaluators to use in estimating net savings for Illinois.

- The Commission hereby directs the Company to require its evaluators to collaborate with the other Illinois evaluators and the SAG to use best efforts to reach consensus on the approaches used in assessing NTG in particular markets for both residential and non-residential energy efficiency programs in a manner consistent with the direction described herein.
- The Commission agrees with Staff that Commission consideration and approval of statewide net savings methodologies should be accomplished in conjunction with the existing Commission-approved process for approving statewide gross savings methodologies. Staff's proposal is efficient, reasonable, and would likely reduce litigation costs for all parties by avoiding the need for two separate docketed proceedings. Staff's proposal concerning the establishment of consistent statewide IL-NTG Methods is hereby adopted and the Company is directed to comply with the terms of Staff's proposal and involve the evaluators within one month of the date of this Order.
- **Action Item:** Evaluators should discuss plans with SAG before EM&V studies begin. Follow up with SAG on proposal regarding the establishing of consistent statewide IL-NTG Methods.
  - Consistent NTG methodologies issue to be discussed at Tuesday, June 24th EE SAG meeting as an issue to be included in EE Policy Manual.
  - **Follow-Up:** Goal will be to work on common EM&V approaches that can be used for GY4/EY7. Mary Sutter/Jeff Erickson/David Diebel leading.

- **Evaluation – Spillover (p45):**
  - The Commission finds that excluding spillover from the NTG calculations might unfairly reduce a program administrator's calculated savings, but because it can be costly to determine spillover, the Commission will not require that it always be included. Thus, the Commission directs evaluators to consider spillover while being mindful of the costs to measure spillover and the likely impacts of such measurements.
  - Staff's proposal to consider a portfolio-wide spillover survey is worthwhile and the Company is directed to take it to its evaluators and the SAG for further development and implementation as soon as practical.

- **Action Item:** Schedule spillover survey discussion teleconference TAC for Tuesday, July 15th from 10:00am-Noon. Navigant will send Celia presentation three days ahead to cover PG/NSG and Nicor spillover.

- **Evaluation – Modified Illinois Net-To-Gross Framework (p54):**
    - The Commission has frequently noted the importance of consistency among its decisions when addressing issues that span multiple dockets. The revised NTG framework is one such issue. In light of the need for consistency with the Commission's previous decisions in both the Ameren Illinois EEP docket and the ComEd EEP docket, and due to the parties' agreements on certain provisions of the Company's proposal, the Commission adopts the Company's proposed revised NTG framework. Although this NTG framework has a different starting point than the NTG framework adopted in Ameren Illinois' EEP docket, this avoids certain issues that the parties here agree should be rectified, including avoiding retroactive application of NTG values.
    - The Commission notes that the Company revised its proposal to account for certain concerns and recommendations expressed by Staff, the AG, and ELPC in this proceeding. The Commission agrees with Nicor that the NTG framework allows the independent evaluator, in making its final determination, and the SAG, in its advisory role, to consider prior evaluations and the discussions among the SAG, the specific program designs and expectations about the market, and any other research or information that is available and relevant, as well as the collective input of SAG members and evaluators to use their best professional judgment to formulate the best estimate of future NTG values.
    - The Commission rejects the NTG framework proposals submitted by the AG, ELPC, and Staff. These proposals conflict with the NTG frameworks approved by the Commission in the Ameren Illinois and ComEd EEP dockets, and impose what has been established to be unreasonable retroactive evaluation risks.
    - **Action Item:** Proposal to schedule spillover survey discussion teleconference TAC for Tuesday, July 15th from 10:00am-Noon.
- **Evaluation – NTG Ratio Values for Program Year 4 (p55-56):**
    - Nicor Gas correctly points out that Staff has proposed an impossible timeline to engage with the independent evaluator and the SAG in defining new PY4 values for inclusion in its compliance filing. Therefore, the Commission directs Nicor Gas to include in its compliance filing the NTG values approved in this Order. In addition, because the March 1 deadline has already come and gone for PY4, Nicor Gas should deem PY4 NTG values using the values approved in this Order.
- **Evaluation – Creation of an Illinois Energy Efficiency Policy Manual (p57-58):**
    - The Company is directed to work with its evaluators, Staff, the other Illinois utilities, DCEO, and the SAG to complete an Illinois Energy Efficiency Policy Manual to ensure that programs across the state and as delivered by various program administrators can be meaningfully and consistently evaluated.
    - Consistent with our findings in Docket Nos. 13-0495, 13-0498, and 13-0499, the Commission directs the Utilities to work with their evaluators, Staff, the other Illinois utilities, DCEO, and the SAG to complete an Illinois Energy Efficiency Policy Manual to ensure that programs across the state and as delivered by various program administrators can be meaningfully and consistently evaluated.
    - **Action Item:** To be discussed at Tuesday, June 24th EE SAG meeting.
- **Evaluation – Alignment of Schedules for NTG and IL-TRM Updates (p 59-60):**
    - The Commission hereby adopts the IL-TRM and NTG schedules set forth in Staff Exhibit 1.2 as follows:

        - IL-TRM Updates
            - July 1st: the TRM Technical Advisory Committee informs the evaluators and others which measures are high or medium priority measures, for which work papers need to be prepared.
            - August 1st: updates to existing measure work papers to clarify terms or approaches will be completed.
            - October 1st: completely new work papers for new measures will be completed.
        - NTG Updates
            - November 1st: draft residential NTG estimates will be completed for the program year that ended May 31st.
            - December 1st: draft commercial/industrial NTG estimates will be completed for the program year that ended May 31st.
    - In order to ensure the SAG has adequate time to review the evaluators' NTG recommendations before March 1 under the NTG Framework, the Commission directs the Company to require its evaluators to make best efforts to provide the evaluators' initial recommendations for deeming NTG ratios for the energy efficiency programs by the end of the first week in January of each year.
        - **Action item:** Discuss harmonizing scheduling among program administrators.
        - Nov. 1: Res
        - Dec. 1: C&I
        - SAG (3) teleconference in January.
        - Subject to caveats (such as data availability)
- **Adjustable Savings Goal (p68-69):**
    - The Commission notes that the IL-TRM and NTG values upon which adjustments to savings goals would be made are not set by the Company, but rather are values that were either provided by independent evaluators and the SAG/TAC, agreed-to by the parties or derived from a Commission-approved process. The Commission notes that no evidence has been presented that the Company is not committed to energy efficiency or integrity in administering its Plan portfolio. The Commission also notes the issues that have been raised about the possible threats to the energy efficiency programs should this request be granted.
    - The Commission notes that Staff's argument that the most-up-to-date and defensible information should be used when setting NTG and TRM values prospectively is undisputed. That fact, however, does not justify permitting the Company to continually adjust the savings goals established by the Commission in this docket in accordance with NTG and TRM annual updates. The Act explicitly established performance targets and penalties to utilities for failure to meet these energy savings performance targets. The utilities should ensure maximum saving targets are achieved during the three-year Plan period. For all of these reasons, we concur with the Attorney General that the Company's proposal should be rejected. The Commission directs the Company to respond to annual NTG and TRM value changes by making necessary program modifications and adjustments that ensure the energy savings goals established by the Commission are achieved during the three-year Plan period.
- **Stakeholder Advisory Group (p72):**
    - As an initial matter, the Commission confirms SAG's role as a purely advisory body, without any decision-making authority. In addition, the Commission understands that

SAG has a number of issues to address during implementation of the Company's Plan. The Commission notes with approval that SAG subcommittees may be an efficient and appropriate solution in order to tackle the number of issues that SAG needs to address over the Plan. The Commission encourages Nicor Gas' participation in such SAG subcommittees, but finds that an exclusionary SAG subcommittee of Program Administrators is not appropriate. The Commission has always stated that the SAG, including the Technical Advisory Committee ("TAC"), which is a Commission-sanctioned SAG subcommittee, should provide a forum for all interested parties to attend and participate in energy efficiency discussions in Illinois. While the Commission appreciates Nicor's attempt to foster productivity at the SAG, we decline to pursue Nicor's suggestion.

- **Wasted Energy Analysis (p73-74):**
    - ELPC is correct in pointing out that employing a wasted energy study creates the potential to realize significant untapped savings for the Company. The recent ComEd study supports the fact that there is a great opportunity to maximize energy efficiency when behavioral waste is measured along with technology waste. The Company has not produced any evidence to support that a waste study would be too costly to conduct; especially when balanced against the savings it could yield. The Commission notes that these potential savings would ultimately contribute to the Company attaining its overall savings goals as well as provide net savings to the ratepayers. For these reasons, Nicor is ordered to conduct its own waste energy analysis; and use this study to develop and action plan to present to the SAG for implementation in PY5 and PY6.
        - **Questions for Nicor Gas:** When will the study be completed? When to present results to SAG?
            - Proposed Timeline: Discuss with SAG in Spring 2015.
            - Will Nicor Gas present plans on completing the wasted energy study to the SAG in advance? Discuss when to schedule.
            - ACT: Nicor will be selecting someone to conduct wasted energy study to implement in PY5. Will try to partner with People's to share costs. SAG facilitator will seek to schedule Nicor and PG/NSG at the same time.
- **On Bill Financing (p76):**
    - The OBF and other energy efficiency incentives could allow certain customers to afford the costs of upgrades, which in turn may yield an immediate benefit to these customers in the form of energy savings. The OBF is a useful program that has merit to these customers as well as the Company's overall savings goals. As such, Nicor should discuss the pertinent issues related to implementing On-Bill Financing with the SAG to ensure the Company can incorporate this program in the EEP and maximize customer participation overall.
    - **Action Item:** Schedule discussion for September EE SAG meeting (Tuesday, September 30th). Nicor/PG – NSG can present how their OBF programs are doing at the same time.