

# **Illinois Energy Efficiency Stakeholder Advisory Group: TRC Subcommittee Report Final Draft (updated 9/28/2015)**

## **Executive Summary**

The Illinois Energy Efficiency Stakeholder Advisory Group (“SAG”) facilitators established a Total Resource Cost Test Subcommittee (“TRC Subcommittee” or “Subcommittee”) to address several issues related to calculating the Total Resource Cost test (“TRC” or “TRC Test”) in response to directives from the Illinois Commerce Commission (“Commission” or “ICC”) in ICC Docket No. 14-0588, regarding approval of the 2015 Illinois Power Agency (“IPA”) Procurement Plan. The Subcommittee also addressed TRC-related issues raised by stakeholders. This TRC Subcommittee Report provides the procedural history of the subcommittee, a description of the TRC process, a description of issues addressed by the Subcommittee, the status of issue resolution, and a procedural recommendation for addressing unresolved issues. Excerpted Commission directive language to SAG is available in Appendix A.

Through the TRC Subcommittee process, four of the five ICC-identified TRC issues reached resolution, and one of the three stakeholder-identified TRC issues reached resolution. The SAG Facilitation Team appreciates the Subcommittee member’s good faith participation in the TRC Subcommittee, which included active and engaged participation and extensive sharing and discussion of data and analysis that far exceeded what is contained in the record of the IPA docket. The TRC Subcommittee process achieved resolution on the majority of issues, yielded a more precise and refined description of issues, and a significantly more complete record of factual analysis and support for various positions. Furthermore, several parties reported to the SAG Facilitation team that their understanding of the issues, positions and rationale for positions was much greater due to their participation on the Subcommittee. The SAG continues to serve the important role of educating stakeholders in Illinois about significant and relevant issues associated with the energy efficiency portfolios.

## **Procedural History of the TRC Subcommittee**

The IPA petitioned the Commission for approval of the 2015 IPA Procurement Plan in ICC Docket No. 14-0588 (“IPA docket”), pursuant to Section 16-111.5(d)(4) of the Public Utilities Act (“PUA” or “Act”). The 2015 IPA Procurement Plan included a proposed plan for the procurement of electricity for eligible retail customers of Ameren Illinois and ComEd. The IPA Procurement Plan set forth recommendations related to procured electricity commodity and associated transmission services, energy efficiency programs, and renewable energy credits.

In the 2015 IPA docket Final Order, several issues related to screening energy efficiency programs using the TRC Test were unresolved by the Commission. The Commission directed SAG to convene a workshop to discuss and seek to resolve unresolved TRC analysis issues. In response, the SAG Facilitation Team convened a TRC Subcommittee, as subcommittees allow for more thoughtful discussion and analysis of issues compared to workshops.

The Commission’s delegation to SAG of unresolved TRC analysis issues allayed several participant concerns about litigating TRC issues in the IPA docket, as well as concerns expressed by the Commission itself. First, the IPA docket does not include all interested and impacted parties. The IPA docket includes electric utilities, but not gas utilities. However, gas utilities will be affected by any Commission rulings on the TRC test, and should be afforded

equal opportunity to express opinions, provide data, and help shape resolutions. Second, the Commission expressed concern about the expedited schedule and the large number of contested TRC-related analysis issues in the IPA docket. The Commission's delegation of unresolved TRC analysis issues to the SAG afforded more time and analysis of the complicated TRC analysis issues than would have occurred in the IPA docket. The Commission's delegation of complicated and contentious unresolved TRC analysis issues to SAG addressed stakeholder and Commission concerns alike about using the IPA docket to resolve for TRC analysis issues, and thus was a sound procedural decision.<sup>1</sup>

## **Subcommittee Process**

The SAG Facilitation Team prepared a draft TRC Subcommittee Plan and discussed the TRC Subcommittee process and plan with IPA staff in early January 2015. At the January "Large Group"<sup>2</sup> SAG meeting on Tuesday, January 27, 2015, the SAG Facilitator presented a summary of Commission directives from ICC Docket No. 14-0588 and the draft TRC Subcommittee Plan for review by SAG participants.<sup>3</sup> The key objective of creating a TRC Subcommittee was to address issues related to the TRC Test as directed by the Commission, to fully flush out issues and hold fact-based discussions with interested participants. The issues directed for discussion by SAG participants required more focused time and attention than could be accomplished through the large group SAG process.

At the January large group SAG meeting, SAG participants agreed with the creation of a TRC Subcommittee to discuss issues related to the TRC Test. In addition, the DRIPE issue was presented for education and discussion. Two economists presented their opposing positions on whether to include DRIPE in the TRC Test. Scott Fisher, Northbridge Group, presented on behalf of ComEd, and asserted that DRIPE should not be included in TRC analysis. Paul Chernick, Resource Insight, presented on behalf of NRDC,<sup>4</sup> and argued that DRIPE should be included in the TRC analysis, explained how DRIPE could be quantified, and presented his calculation of the magnitude of the electric DRIPE effect for Illinois.

The SAG Facilitation Team sent notice of the newly formed TRC Subcommittee to the SAG distribution list following the January meeting, requesting interested participants. The SAG Facilitation Team only circulated meeting invitations and materials to participants that expressed interest in the TRC Subcommittee. The SAG Facilitation Team held eight (8) TRC Subcommittee meetings from February to October 2015. Agendas, meeting materials, and notes are available for download on the [TRC Subcommittee page](#) of the SAG website. See Appendix B for a brief summary of individual TRC Subcommittee meetings.

While participants were not able to reach agreement on all issues, some consensus agreements did emerge from TRC Subcommittee meetings. All participants engaged fully on the issues and provided detailed information and substantial factual support for their arguments and positions. Thus, even for issues that remained unresolved, the Subcommittee work resulted in more information and analysis on disputed issues than is contained in the record in the IPA docket.

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<sup>1</sup> Specific language from the IPA docket Final Order is excerpted in Appendix A

<sup>2</sup> The SAG has ten (10) regularly-scheduled SAG meetings each year, not including August and December, scheduled for the fourth Thursday of each month. The regularly-scheduled meetings are called the "Large Group" meetings.

<sup>3</sup> See Draft IPA TRC Subcommittee Plan, Version 1.0. Retrieved from: [http://ilsagfiles.org/SAG\\_files/Subcommittees/IPA-TRC\\_Subcommittee/2-17-2015\\_Meeting/IPA\\_TRC\\_Subcommittee\\_Plan\\_Ver\\_1\\_DRAFT\\_v2.pdf](http://ilsagfiles.org/SAG_files/Subcommittees/IPA-TRC_Subcommittee/2-17-2015_Meeting/IPA_TRC_Subcommittee_Plan_Ver_1_DRAFT_v2.pdf).

<sup>4</sup> Meeting materials for January 27, 2015 are available on the [SAG website](#).

A brief summary of the status of each issue is included below. Additional information can be found in Section II, Issues for SAG Discussion, and Appendix C, Comparison Exhibit of Non-Consensus Issues.

### **High-Level Summary and Status of Issues Discussed by the Subcommittee**

The Commission directed the SAG to address the following TRC-related issues through workshops in ICC Docket No. 14-0588:

1. ***Duty of IPA to Perform Total Resource Cost-Effectiveness Analysis (TRC Analysis)***: Whether the IPA should develop and perform an independent TRC calculation with distinct inputs and assumptions rather than relying on inputs provided by the utilities.
  - **Status of issue resolution: Resolved**. IPA does not need to perform independent cost-effectiveness screening, but must independently review inputs, assumptions and methodologies used in the utility cost-effectiveness calculations. As such, the utilities must provide for ICC staff, stakeholder and IPA review all inputs and assumptions used in the utility cost-effectiveness analysis, the rationale for the inputs and assumptions, and indicate the methodology and/or tool used to calculate cost-effectiveness.
2. ***Including Non-Energy Benefits (NEBs in TRC Analysis)***: Whether NEBs should be included in the Illinois TRC Test calculation. If so, how should they be quantified?
  - **Status of issue resolution: Resolved**. NEBs will be considered for inclusion at the measure level in the upcoming annual Illinois Technical Reference Manual process (“IL-TRM”). However, no consensus was reached on the appropriate treatment of non-energy benefits for the 2016 Plan.
3. ***Using Marginal Rather than Average Line Losses in TRC Analysis (Ameren IL-specific issue)***: Whether Ameren IL should use marginal line losses in TRC Analysis, rather than average line losses, consistent with ComEd approach which uses marginal line losses.
  - **Status of issue resolution: Resolved**. For 2016 Plan program submissions, Ameren IL is using ComEd’s marginal line loss information in the absence of marginal line loss information specific to Ameren Illinois.
4. ***Level of Administrative Costs Used in TRC Analysis***: How will administrative costs be tracked going forward, by program? How can overhead/administrative costs be determined with reasonable certainty, and how should they be included in the TRC Test?
  - **Status of issue resolution: Resolved**. Ameren Illinois and ComEd are beginning to take steps toward tracking administrative costs by program. However program-specific administrative cost information for programs submitted for inclusion in the 2016 IPA Plan has not yet been developed. As a result, the TRC Subcommittee determined that some estimation of administrative costs must be applied until sufficient time has passed for actual administrative costs to be collected. The TRC Subcommittee discussed the idea that the utilities could perform TRC analysis with both with 7% and 11% administrative cost and report two sets of program-level TRC values to the IPA. The programs actually submitted to the IPA for review featured utility administrative cost screenings using different, and slightly higher, values.<sup>5</sup>

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<sup>5</sup> The administrative costs used by Ameren and ComEd in TRC screenings can be found in Sections 7.2.3.7 and 7.2.4.4 of the draft 2016 IPA Procurement Plan, respectively.

5. **Including Demand Reduction Induced Price Effect (DRIFE) in TRC Analysis:**

Whether DRIFE should be included in the Illinois TRC Test calculation.

- Status of issue resolution: Unresolved. Neither Ameren Illinois nor ComEd included DRIFE benefits in its assessment of energy efficiency programs and measures offered for the 2016 Plan. See Appendix C, Comparison Exhibit of Non-Consensus Issues for more information on open issues related to DRIFE and the associated rationale for each position.

Several SAG participants also identified and requested discussion of the following TRC-related issues in the TRC Subcommittee:

1. **How Should TRC Analysis Account for “Interactive Effects” Between Measures<sup>6</sup>:**

How are interactive effects being taken into account, for both TRC and savings goal purposes for Section 8-103, 8-104 and 16-111.5B programs? How do evaluators treat interactive effects?

- a. Status of issue resolution: Unresolved. Pending follow-up discussion at the October 6, 2015 meeting (TRC Subcommittee #8).

2. **How Should “Dual Baselines” Be Addressed in TRC Analysis<sup>7</sup>:** When TRC analysis is performed, on an ex poste basis, are dual baselines accounted for in Section 8-103, 8-104 and 16-111.5B programs? If so, how are they accounted for? (ICC Staff is interested in consistent treatment of dual baselines across programs).

- a. Status of issue resolution: Resolved. Program Administrators will use Method 1.<sup>8</sup>

3. **What Discount Rate Should Be Used in TRC Analysis:** Whether societal or utility cost-of-capital discount rate should be applied to program screening.

- a. Status of issue resolution: Unresolved. Pending follow-up discussion at the October 6, 2015 meeting (TRC Subcommittee #8).

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<sup>6</sup> “Interactive Effects” refers to the interaction between electric and gas energy efficiency measures. Interactive Effects are not automatically captured. Because we cannot know what measures will be implemented at the same time with the same customer, we cannot always capture the interactions between multiple measures within individual measure characterizations. For example, waste heat factors are included in the lighting characterizations to capture the interaction between more-efficient lighting measures and the amount of heating and/or cooling that is subsequently needed in the building.

<sup>7</sup> “Dual Baselines” refers to a program screening approach where two baselines are accounted for in determining savings. For example, an “early replacement” energy efficiency program focuses on replacing existing equipment with higher efficiency equipment before the equipment would have otherwise been replaced. Savings should be calculated in two ways: 1) for the remaining useful life of the existing measure, the savings is calculated as the difference between energy use for the replaced measure and the new energy efficiency measures, and 2) at the time of natural replacement, the savings is calculated as the difference between the new standard measures available in the market, compared to the new energy efficiency measure.

<sup>8</sup> Method 1 = Using a dual baseline approach; use first year savings for the remaining useful life (RUL) ( $\Delta_{\text{existing}}$  to efficient), and use lower savings ( $\Delta_{\text{new standard}}$  efficiency baseline to efficient) for the remaining measure life. [Example: 4 years at first year savings, 11 years with reduced savings. (NPV Lifetime Benefits=\$3,205)]

## I. IPA Docket Issues for SAG Discussion

The five issues described below were directed by the Commission in the IPA docket for discussion at SAG. The description of issues and status has been excerpted from the Illinois Power Agency draft 2016 Electricity Procurement Plan, with permission from Illinois Power Agency staff.

### ***Issue 1) Whether the IPA should develop and perform an independent TRC calculation with distinct inputs and assumptions rather than relying on inputs provided by the utilities.***

Section 16-111.5B of the Act requires that the IPA include in its procurement plan “energy efficiency programs and measures it determines are cost-effective” (emphasis added).<sup>9</sup> However, Section 16-111.5B energy efficiency programs and measures are initially identified and reviewed by the utilities and submitted to the IPA through an assessment process including initial determinations made as to cost-effectiveness. Perhaps more importantly, Section 16-111.5B(b) requires that “the term ‘cost-effective’ shall have the meaning set forth in subsection (a) of Section 8-103 of this Act,” leaving questions as to the degree to which the IPA could adopt an approach to cost-effectiveness screening distinct from that already applied by the utilities under Section 8-103.<sup>10</sup>

**Status:** The issue of whether the IPA can (and should) perform an independent TRC calculation, with distinct inputs and assumptions (rather than relying on inputs provided by the utilities), was put to the TRC Subcommittee for further discussion and review. By consensus, the subcommittee determined that IPA does not need to perform independent cost-effectiveness screening with truly independent inputs, assumptions, and methodology, but must independently review assumptions. As such a review requires necessary information from the utilities, the TRC Subcommittee also determined that the utilities are to provide a summary of the content of their cost-effectiveness screening model and the basis for any cost and benefit assumptions.<sup>11</sup>

### ***Issue 2) Demand Reduction Induced Price Effect (“DRIPE”): Whether DRIPE should be included in the Illinois TRC Test (“TRC” or “TRC Test”) calculation.***

Market energy prices are driven in large part by load levels, and reducing electric loads should lead to a reduction in market prices. Energy efficiency programs and measures reduce consumption and, as a consequence, reduce electric loads. In turn, these load reductions should lead to price reductions in generation rates paid by electricity consumers (independent of direct savings from installation of the energy efficiency measures themselves), with reduced demand now operating in an environment of unchanged supply.<sup>12</sup>

That reducing consumption reduces market prices is not a novel concept (although questions persist about the magnitude and persistence of such price effects), nor is the concept that consumers achieve economic benefit from reduced prices. In Docket No. 14-0588, NRDC argued that those price effects from reduced demand created by energy efficiency programs—known as demand reduction induced price effects, or “DRIPE”—should be included as a benefit

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<sup>9</sup> 220 ILCS 5/16-111.5(a)(4).

<sup>10</sup> Draft 2016 IPA Procurement Plan at 87.

<sup>11</sup> Id.

<sup>12</sup> Id. at 84.

in utility TRC calculations. Citing the complexity of resolving such issues in a 90 day docket, the Commission directed that the issue be addressed through SAG.<sup>13</sup>

The TRC Subcommittee reviewed two reports on DRIPE: one was from Resource Insight Inc.;<sup>14</sup> another was from Exeter Associates, Inc.<sup>15</sup> The Subcommittee also heard commentary from, and asked questions of, technical experts offered by each side of the DRIPE debate. The TRC Subcommittee also reviewed information on other states' practices. Of the twelve other restructured states, seven (Connecticut, Rhode Island, Massachusetts, Maryland, the District of Columbia, Delaware, and Maine) include DRIPE in their cost-effectiveness screening of efficiency measures. Though not a restructured state, Vermont regulators also include the impacts of DRIPE in neighboring restructured states in their screening of the benefits of efficiency measures installed in their state.<sup>16</sup>

**Status:** This issue has not been resolved in the TRC Subcommittee. Neither utility included DRIPE benefits in its assessment of energy efficiency programs and measures offered for the 2016 Plan. See Appendix C, Comparison Exhibit of Non-Consensus Issues for more information on open issues related to DRIPE and the associated rationale for each position.

***Issue 3) Non-Energy Benefits (“NEBs”): Whether NEBs should be included in the Illinois TRC Test calculation. If so, how should they be quantified?***

The statutory definition of the TRC test describes acceptable benefits as “the sum of avoided electric 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 natural gas utility costs.” Some parties argue that some less obvious benefits of energy efficiency programs may be accounted for in the TRC even if not directly related to the supply of energy (and are indeed envisioned by law to be incorporated through language directing the inclusion of “other quantifiable societal benefits”).<sup>17</sup>

Such benefits are known as non-energy benefits, or “NEBs.” NEBs may incorporate several different categories of benefits from energy efficiency programs:

- Environmental adders – specifically, reductions in SO<sub>x</sub>, NO<sub>x</sub>, and, other air pollutants and emissions<sup>18</sup>
- Water – Resource benefit
- Societal Impacts – health, safety, comfort, building durability, etc.
- O&M cost avoidance
- Economic – Job creation
- Participant Perspective – water and sewer savings, fewer shutoffs, fewer calls to the utility, fewer reconnects, property value benefits, fewer fires, reduced moving costs, fewer illnesses and lost days from work or school, net benefits for comfort and noise, and net benefits for additional hardship.<sup>19</sup>

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<sup>13</sup> Id. at 84-85.

<sup>14</sup> “Analysis of Electric Energy DRIPE in Illinois”, Resource Insight, Inc., Sept 3, 2014.

<sup>15</sup> “Assessment of the Costs Avoided through Energy Efficiency and Conservation Measures in Maryland,” Exeter Associates, Inc., April 2014.

<sup>16</sup> Draft 2016 IPA Procurement Plan at 85.

<sup>17</sup> Draft 2016 IPA Procurement Plan at 85.

<sup>18</sup> Carbon dioxide savings are addressed separately and more explicitly under Illinois law, as the TRC definition requires that “reasonable estimates shall be included of financial costs likely to be imposed by future regulations and legislation on emissions of greenhouse gases.” (20 ILCS 3855/1-10)

<sup>19</sup> Draft 2016 IPA Procurement Plan at 85.

Positioned for consideration by the TRC subcommittee was which non-energy benefits (NEBs) should be included in the Illinois TRC calculation, how they should be quantified, and whether they should—or could—be quantified by program/measure type.<sup>20</sup> A review of other state practices showed that some state electric efficiency programs use varying costs for NEBs ranging from 10 to 30 percent;<sup>21</sup> others also include a price for carbon in addition to the NEBs percentage.<sup>22</sup>

**Status:** NEBs will be considered for inclusion at the measure level in the upcoming annual Illinois Technical Reference Manual process (“IL-TRM”). No consensus was reached on the appropriate treatment of non-energy benefits for the 2016 Plan.<sup>23</sup>

***Issue 4) Marginal Line Losses: Whether Ameren IL should include marginal line losses, instead of average line losses. Why does Ameren IL not utilize its best estimate of marginal in place of average line losses, which ComEd utilizes?***

The line losses avoided by energy efficiency measures are among the “avoided electric utility costs” included in a TRC calculation. Line losses may be calculated in two ways: average line losses, which are a measured and published figure; or marginal line losses, which are generally determined by using actual system information and more detailed calculations. In Docket No. 14-0588, NRDC argued that because line losses grow exponentially with load and are most pronounced during peak hours, marginal line loss calculations are better able to account for line losses as a square of the load.<sup>24</sup>

ComEd has historically used marginal line losses in their TRC tests; this was ComEd’s approach for programs submitted for the 2015 Plan, and the same held true for the 2016 Plan. Alternatively, Ameren Illinois has historically incorporated average line losses in its TRC calculations.<sup>25</sup>

**Status:** Parties agreed that for 2016 Plan program submissions, Ameren Illinois would use ComEd’s marginal line loss information in the absence of marginal line loss information specific to Ameren Illinois. The TRC calculations provided by Ameren Illinois for the 2016 Plan thus reflect marginal line losses.

***Issue 5) Administrative Costs: How will administrative costs be tracked going forward, by program? How can overhead/administrative costs be determined with reasonable certainty, and how should they be included in the TRC Test?***

An additional topic left to the TRC Subcommittee concerned administrative costs associated with Section 16-111.5B incremental energy efficiency program administration. In Docket No. 14-0588, NRDC contested Ameren Illinois’ application of a blanket 15% administrative cost adder

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<sup>20</sup> By way of example, NRDC has proposed using a 15% default non-low income benefits adder and a 30% default low income benefits adder—demonstrating a marked increase in non-energy benefits associated with programs targeted toward low-income households.

<sup>21</sup> See the SAG website at [http://www.ilsag.info/subcommittee\\_ipa-trc.html](http://www.ilsag.info/subcommittee_ipa-trc.html) for more information on how other states calculate NEBs.

<sup>22</sup> Again, as noted above, Illinois law requires that TRC tests include “reasonable estimates . . . of financial costs likely to be imposed by future regulations and legislation on emissions of greenhouse gases.” (20 ILCS 3855/1-10)

<sup>23</sup> Draft 2016 IPA Procurement Plan at 86.

<sup>24</sup> Id. at 84.

<sup>25</sup> Id.

applied to all Section 16-111.5B programs, believing that such costs were inflated and bore little connection to the actual costs of administering the programs being evaluated. The Commission resolved the issue with the following statement:

NRDC also argues that Ameren is overstating its overhead or administrative costs as used in the TRC test and notes that ComEd does not use a similar percentage adder when performing the TRC test. Ameren disagrees, while Staff suggests Ameren should not be using any generic adder for all programs as administrative costs are likely to vary by program size type and size. The Commission finds the quality of evidence relating to this issue lacking. No party presented evidence regarding Ameren specific overhead or administrative costs though it is almost certain they exist. To the extent the utilities do not explicitly track this information already, the Commission hereby directs Ameren and ComEd to track administrative costs by program in order to aid in future determinations of appropriate administrative cost assumptions to use in the TRC analysis of the Section 16-111.5B programs.<sup>26</sup>

While the utilities are beginning to take steps toward tracking administrative costs by program, program specific administrative cost information for programs submitted for inclusion in the 2016 Plan has not yet been developed. As a result, some estimation of administrative costs must once again be applied.

In addressing this issue, one proposed solution raised by TRC Subcommittee identified the following categories of administrative costs:

**Category 1: EM&V** – will add to each IPA program (3%). Utility will take 3% from each program selected, lump together.

**Category 2: Program Management** – (3-4%) Utility will take program-specific and will be allocated to programs in screening. Other management admin costs, invoicing, etc. will be allocated based on program budget.

**Category 3: Increase in other Admin: Marketing, General Admin, other non-assignable** – (Approximately 4%) Assignable will be allocated to IPA programs based on program budgets. Non-assignable (RFP, regulatory approval, legal, potential studies, etc.) will be allocated across the portfolio. Utilities will track these costs. There was non-consensus on whether to include these costs when screening IPA programs.

**Resolution:** The TRC Subcommittee discussed the idea that the utilities could screen both with 7% and 11% blanket administrative cost rates and report those numbers to the IPA for program review. The programs actually submitted to the IPA for review featured utility administrative cost screenings using different, and slightly higher, values. The administrative costs used by Ameren and ComEd in TRC screenings can be found in Sections 7.2.3.7 and 7.2.4.4 of the draft 2016 IPA Procurement Plan, respectively.

## II. Additional TRC Test Issues for SAG Discussion

Several SAG participants requested the discussion of additional TRC Test issues in the TRC Subcommittee. Illinois Commerce Commission Staff (“ICC Staff”) and the Illinois Attorney General’s Office (“IL AG”) requested that the TRC Subcommittee address several issues related

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<sup>26</sup> Docket No. 14-0588, Final Order dated December 17, 2014 at 224.

to screening energy efficiency programs using the TRC Test, including measuring interactive effects, accounting for dual baselines, and the appropriate discount rate to apply to programs. Questions and issues are described below, including the status of issue resolution.

***Issue 1) Measuring interactive effects: How are interactive effects being taken into account, for both TRC and savings goal purposes for Section 8-103, 8-104 and 16-111.5B programs? How do evaluators treat interactive effects?***

ICC Staff is interested in consistent treatment of interactive effects across energy efficiency programs. During an initial discussion of this issue, Illinois utilities, the Department of Commerce and Economic Opportunity (“Department”) described how interactive effects are being taken into account, for both TRC and savings goal purposes for Section 8-103, 8-104 and 16-111.5B programs. The IL-TRM currently includes an interactive effects policy; however ICC Staff is concerned that it does not include enough detail on how interactive effects should be accounted for. ICC Staff proposed updated policy language to require that Program Administrators include interactive effects for both savings goals and TRC Test purposes. Several TRC Subcommittee participants expressed concerns about proposed draft language, in particular as it related to penalizing gas utilities for interactive effects.

**Status:** This issue remains unresolved. A follow-up discussion is scheduled for TRC Subcommittee Meeting #8 (October 6, 2015). IL AG will review and propose edits to the IL-TRM language on interactive effects as an alternate proposal.

***Issue 2) Accounting for dual baselines: When TRC analysis is performed, on an ex post basis, are dual baselines accounted for in Section 8-103, 8-104 and 16-111.5B programs? If so, how are they accounted for?***

ICC Staff is interested in consistent treatment of dual baselines across energy efficiency programs. ICC Staff proposed that Illinois utilities and the Department include dual baselines when calculating the TRC, including four (4) years at full savings and eleven (11) years with reduced savings, as described in the Illinois Technical Reference Manual (“IL-TRM”).

**Status:** Resolved. Following discussion and time for review, Illinois utilities and the Department agreed to use Staff’s proposal to account for dual baselines.

***Issue 3) Discount rate: Whether societal or utility cost-of-capital discount rate should be applied.***

IL AG proposed that utilities and the Department use a societal discount rate instead of the weighted average cost-of-capital (“WACC”) discount rate. IL AG’s rationale for using the societal discount rate is threefold: 1) energy efficiency funds involve a very different risk profile than funds invested by bond and equity investors; 2) using a societal discount rate results in lower risk to the utilities; and 3) a number of other jurisdictions across the U.S. report using a societal discount rate, or a similar rate, instead of WACC. During an initial discussion of this issue, the utilities and the Department expressed concern about switching from WACC to the societal discount rate, in particular because the WACC discount rate has been used since the Section 8-103 and 8-104 energy efficiency programs began in Illinois.

**Status: Not resolved.** A follow-up discussion is scheduled for TRC Subcommittee Meeting #8 (October 6, 2015). IL AG will present additional information on this issue, including rationale for using the societal discount rate and how it would increase benefits.

### III. Conclusion and Procedural Recommendation

TRC Subcommittee participants held extensive discussions on the issues directed by the Commission in the 2015 IPA Procurement Plan docket. Despite these discussions and time for participants to review various positions and the rationale of interested parties, three issues remain unresolved: 1) DRIPE; 2) interactive effects; and 3) discount rate. The SAG Facilitation Team will circulate a final draft TRC Subcommittee Report reflecting discussions on October 8<sup>th</sup>, and an updated Comparison Exhibit of Non-Consensus Issues to TRC Subcommittee participants following the final meeting for review and comment. The updated Comparison Exhibit will include a description of open issues, positions of various parties, and the rationale for each position. The final TRC Subcommittee Comparison Exhibit will be included in this TRC Subcommittee Report as Appendix C. The Comparison Exhibit will also be available for download on the TRC Subcommittee page of the SAG website.<sup>27</sup>

Although three of eight issues remain unresolved, as described above, the SAG Facilitation Team will put the TRC Subcommittee on hiatus following the October 6, 2015 meeting due to proposed energy legislation under consideration by the Illinois legislature that would settle several of the unresolved issues.<sup>28</sup> Proposed legislation in the spring 2015 legislative session includes House Bill 2607<sup>29</sup> / Senate Bill 1485<sup>30</sup> and House Bill 3328<sup>31</sup> / Senate Bill 1879.<sup>32</sup> Proposed energy legislation impacts DRIPE, non-energy benefits, discount rate, and the role of the Illinois Power Agency in the energy efficiency program procurement process, which includes TRC analysis, at a minimum. Energy legislation may be addressed by the Illinois legislature during either the fall 2015 veto session or the spring 2016 legislative session. The SAG Facilitation Team will continue tracking proposed legislative action that may impact the TRC Subcommittee. If necessary and appropriate, the SAG Facilitation Team will reconvene the TRC Subcommittee once energy legislation is signed into law in Illinois, following either the fall 2015 veto session or the spring 2016 legislative session. Alternatively, if energy legislation is definitively resolves some or all of the unresolved issues, the SAG Facilitation Team will update, recirculate for review, then post, this TRC Subcommittee Report.

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<sup>27</sup> See TRC Subcommittee: [http://www.ilsag.info/subcommittee\\_ipa-trc.html](http://www.ilsag.info/subcommittee_ipa-trc.html).

<sup>28</sup> See Illinois House Bill 2607; Senate Bill 1485; House Bill 3328; and Senate Bill 1879.

<sup>29</sup> See HB 2607. Retrieved from: <http://ilga.gov/legislation/99/HB/PDF/09900HB2607lv.pdf>.

<sup>30</sup> See SB 1485. Retrieved from: <http://ilga.gov/legislation/99/SB/PDF/09900SB1485lv.pdf>.

<sup>31</sup> See HB 3328. Retrieved from: <http://www.ilga.gov/legislation/99/HB/PDF/09900HB3328lv.pdf>.

<sup>32</sup> See SB 1879. Retrieved from: <http://www.ilga.gov/legislation/99/SB/PDF/09900SB1879lv.pdf>

## Appendix A: Commission Directives to SAG

The language below is excerpted from ICC Docket No. [14-0588](#). Emphasis has been added (bold language indicates specific Commission directives to SAG).

### **Incremental Energy Efficiency (p223-227):**

NRDC urges the Commission to require the inclusion of marginal line losses, DRIPE, and NEBs when Illinois utilities perform the TRC test to evaluate energy efficiency programs. Portions of this recommendation are supported by ELPC, CUB/EDF, and the AG. Portions of the recommendations are opposed by ComEd, Ameren, and Staff. ComEd, Ameren, and Staff make economic arguments against the NRDC recommendations and ComEd and Staff make legal arguments against portions of NRDC's recommendations.

The IPA believes the best path forward is to conduct workshops that would allow for the proper time and process for considering if any of the proposed TRC changes should be made. While the IPA is sympathetic to NRDC and ELPC's desire for immediate resolution, the IPA believes the record in this proceeding is simply too limited relative to what may be accomplished through more thorough and deliberate consideration. If a workshop does not suffice, the IPA suggests another approach could be for the Commission to open a formal investigation of the TRC methodology, but the IPA does not believe that a formal investigation would be a faster or more efficient way to proceed, and thus continues to recommend a workshop process.

Those parties, along with the IPA, also believe it is premature for the Commission to implement NRDC's recommendations because it could impact parties that are not participating in this proceeding. They believe the Commission should refer the issue to workshops conducted either by Staff or the SAG. NRDC and ELPC believe workshops on these issues would not be productive. They claim the issues have been previously raised in such forums and, for the most part, the utilities are not open to considering their positions.

As an initial matter the Commission notes that it has considered at least some of NRDC's recommendations in previous procurement proceedings and declined to adopt them. A significant problem with procurement proceedings is the expedited schedule combined with a relatively large number of contested issues and parties. This makes it difficult for the Commission to deal with complex economic issues, such as those raised by NRDC. As a result, and because not all potentially affected parties are participating in this proceeding, the Commission must again decline to adopt the NRDC's recommendations. Instead, the Commission finds the IPA's recommendation on these issues to be the most reasonable.

**The Commission refers the three issues raised by NRDC to be addressed at workshops conducted by the SAG. In the event the SAG is unable to conduct the workshops, for whatever reason, the Commission directs the Staff to conduct the workshops. Among the broader issues to be explored in the workshops, the Commission specifically directs the parties to address why Ameren does not utilize its best estimate of marginal line losses in place of average line losses, which ComEd already utilizes. Additionally, the parties should address the possibly outdated literature relied upon by ComEd in its opposition to the inclusion of DRIPE in the TRC test. The Commission also finds the AG's arguments regarding the inclusion of DRIPE intriguing. As noted above, procurement proceedings are not the ideal forum for considering complex economic issues and the Commission urges the parties to make serious efforts to reach consensus on at least some of these issues. While the Commission does not wish to open a proceeding for the**

**purpose of addressing possible changes to the TRC test at this time, it may be necessary if the parties are unable to make progress in the workshop forum.**

NRDC also argues that Ameren is overstating its overhead or administrative costs as used in the TRC test and notes that ComEd does not use a similar percentage adder when performing the TRC test. Ameren disagrees, while Staff suggests Ameren should not be using any generic adder for all programs as administrative costs are likely to vary by program size type and size. The Commission finds the quality of evidence relating to this issue lacking. No party presented evidence regarding Ameren specific overhead or administrative costs though it is almost certain they exist. To the extent the utilities do not explicitly track this information already, the Commission hereby directs Ameren and ComEd to track administrative costs by program in order to aid in future determinations of appropriate administrative cost assumptions to use in the TRC analysis of the Section 16-111.5B programs. **The Commission rejects Staff's suggestions that Ameren should use a value of zero for a cost that almost certainly exists and could probably be estimated with reasonable certainty. As a result, while the Commission must reject NRDC's recommendations on this issue because they are not supported by the record, the Commission directs the parties to address this issue in the workshops discussed above.**

According to Staff, the IPA indicates it appreciates that Section 16-111.5B(a)(4) in isolation could be understood to demand a more rigorous evaluation, even justifying the use of evaluative criteria separate from criteria used to evaluate programs under Section 8-103. **Staff says the IPA suggests in the procurement plan that a workshop could also consider if the IPA should develop and perform an independent TRC calculation with distinct inputs and assumptions rather than relying on inputs provided by the utilities. (Staff BOE Attachment A at 222)** The Commission agrees that this would be a reasonable topic to address in the workshops discussed above.

NRDC recommends that the Commission revise the Plan or otherwise expressly encourage utilities to develop requests for proposals with input from and collaboration with interested stakeholders throughout the process in the review of third party program bids. Ameren adamantly objects claiming such a requirement is unnecessary. In its Response, the IPA supports NRDC's recommendation. ELPC supports NRDC's recommendation and suggests the Commission should direct Ameren to follow the same collaborative bid review approach used by ComEd. Staff supports the ELPC and NRDC recommendations with certain modifications. (Staff BOE Attachment A at 225)

Staff supports the Commission requiring Ameren to submit a confidential utility and stakeholder bid review document with its energy efficiency assessment similar to the one submitted by ComEd but recommends that such utility and stakeholder bid review documents include more detail concerning the rationale for the competing and duplicative determinations as well as the facts considered by the utilities and stakeholders in making those determinations. Staff says all parties appear to agree that the stakeholder reviewers should have no decision-making authority. (Staff BOE Attachment A at 225)

The Commission notes that, to some extent, the schedule for the third party bid process is out of the utilities' control and is somewhat sympathetic to Ameren's argument that it attempts to include interested stakeholders to the extent possible. On the other hand, the complaints regarding Ameren's process and openness to input from interested stakeholders, relative to ComEd's is troubling. While the Commission does not believe it necessary to make a change to the Plan under consideration in this proceeding, the Commission directs Ameren to improve its

efforts to include interested stakeholders and give their input more serious consideration when reviewing third party program bids in the future. While the Commission does not wish to initiate a formal proceeding to address this issue at this time, it may be necessary if the issue arises in future procurement proceedings.

Staff objects to the IPA's justification for the recommendations as to which Ameren behavioral program should be included in the plan. Staff's objection has several parts: first, a request to include in the Plan an alternative expression of the total resources cost test expressed as the difference between costs and benefits rather than as a ratio; second, a discussion of the experience of energy savings and cost effectiveness for home energy reports for Ameren and elsewhere in Illinois; and third, a discussion of whether the two Ameren behavioral programs are "competing" or "duplicative."

The IPA and Ameren do not believe that changes to its Plan are warranted in response to Staff's objections. Ameren states that if both programs were adopted, then the respective programs would be cut in half, assuming either vendor would have an interest in contracting for half of the incentives for which it bid. Ameren believes the correct path is to not have these programs compete at half budget, with increased administrative costs, but rather to have one program, chosen by the Commission, run at full capacity so that the bid savings can be achieved.

The IPA believes pragmatic decisions must be made when there are "duplicative" bids and that information will never be perfect, but a determination must be made. The IPA sympathizes with Staff's concern regarding the implications of not adopting the non-incumbent program with the higher TRC. The IPA says its recommendation between these programs is based on a qualitative consideration of multiple factors. The IPA claims the disconnect between vendor-supplied estimates and evaluated therm savings, along with the inherent uncertainty surrounding vendor-supplied values, underscores the weakness of choosing between the two programs on the basis of their TRCs when the input values are not based on the Technical Reference Manual.

Staff suggests various ways that Ameren and the IPA could work with vendors to refine and coordinate bid responses. The IPA indicates it first saw vendor bid responses as part of Ameren's July 15 filing, but says it is not opposed to a consideration of a more active and earlier role in the bid screening and evaluation process in future years.

The Commission appreciates the efforts of Staff relating to incremental energy issues. Ultimately, the Commission agrees with Ameren that the best result is to not have these programs compete at half budget, with increased administrative costs, but rather to have one program run at full capacity so that the bid savings can most likely be achieved. As a result, the Commission rejects Staff's proposed modifications to the Plan.

The consensus language from the 2014 Section 16-111.5B energy efficiency workshops was submitted by Ameren to the IPA in Ameren's energy efficiency assessment required by Section 16-111.5B (now set forth in Appendix B-2 of the Plan) and the IPA filed the consensus language with its Plan with a recommendation that the Commission adopt it. Staff supports Commission adoption of the consensus language from the 2014 Section 16-111.5B energy efficiency workshops as it will increase transparency and certainty for all parties involved with the Section 16-111.5B energy efficiency programs.

The Commission appreciates the efforts of all parties that worked to reach consensus through the workshops on the complicated Section 16-111.5B energy efficiency issues raised in previous procurement dockets. The Commission hereby adopts the consensus language from the 2014 Section 16-111.5B energy efficiency workshops in order to increase certainty for all parties involved with the Section 16-111.5B energy efficiency programs.

The Commission hereby approves the cost-effective incremental energy efficiency programs recommended by the IPA, except as modified in this conclusion above.

## **Appendix B: Summary of TRC Subcommittee Meetings**

Below is a summary of TRC Subcommittee meetings held from February to October 2015, including the status of issue resolution. Agendas, meeting materials, attendee lists, and meeting notes are available for download on the [TRC Subcommittee page](#) of the SAG website.

### **TRC Subcommittee Meeting #1 – Tuesday, February 17, 2015**

The first TRC Subcommittee meeting included additional discussion of the DRIPE issue, as a follow-up to the January SAG meeting. A preliminary draft “DRIPE Comparison Exhibit” was circulated for review prior to the meeting. Presenters included Paul Chernick, Resource Insight, on behalf of NRDC; Scott Fisher, NorthBridge Group, on behalf of ComEd; and David Brightwell, ICC Staff. The purpose of this discussion was to review the issues set forth in the DRIPE Comparison Exhibit to determine the differences in positions and rationale, whether differences could be narrowed, and whether the DRIPE Comparison Exhibit was complete as drafted. Roger Baker, ComEd, also presented on DRIPE in other jurisdictions, to educate the TRC Subcommittee. Baker’s research found that in the states that have adopted DRIPE, statutes don’t define the TRC Test and what goes in it. In each case where states have adopted DRIPE, the TRC Test is not defined by statute, but instead by the regulatory Commission.

- *Status of issue resolution:* Following TRC Subcommittee Meeting #1, the SAG facilitation team updated the draft DRIPE Comparison Exhibit and circulated it to TRC Subcommittee participants for review and comment. A draft DRIPE Q&A document was also circulated, which summarized the discussion during the first meeting. Additional responses to questions included in the Q&A document were requested by the SAG facilitation team.

### **TRC Subcommittee Meeting #2 – Tuesday, March 17, 2015**

The second TRC Subcommittee meeting included a discussion of several TRC Test issues, as directed by the Commission. The TRC Subcommittee briefly discussed excerpted language from proposed legislation that related to TRC Test issues. Participants agreed that the TRC Subcommittee should proceed discussing the issues that the Commission directed in the IPA docket. Even if adopted, proposed legislation may not change the need to discuss the identified issues. At the time of the second meeting, proposed legislation was still pending.

#### *Issue: DRIPE*

The SAG facilitator provided a status update on the DRIPE issue. DRIPE documents were still out for review by Subcommittee participants, including the updated draft DRIPE Comparison Exhibit and draft DRIPE Q&A document.

#### *Issue: Whether IPA should run its own cost-effectiveness calculations.*

The Subcommittee discussed the threshold issue of whether IPA should run its own cost-effectiveness calculations. In the IPA docket, NRDC suggested that IPA should complete its own cost-effectiveness calculation. IPA thinks it’s important to understand what is included in the calculation. IPA can and will continue to look at inputs and assumptions; however IPA asserted they do not feel the need to perform their own cost-effectiveness calculations. Instead, there are questions for the Subcommittee to discuss regarding whether the inputs currently used in cost-effectiveness calculations are reasonable. For the purposes of the law, IPA must consider what programs are cost-effective (with a TRC at or above 1.0). IPA also suggested should consider levels of review – what is a reasonable TRC range to use? If a TRC falls into that range, should those programs be included? That goes both ways – programs that are

below and above 1.0. NRDC clarified its position that IPA should complete a detailed, thorough, independent review of some of the assumptions that go into the TRC (such as administrative costs, avoided costs, and costing periods) and not necessarily complete a separate cost-effectiveness calculation.

- *Status of issue resolution:* Several questions were raised by participants regarding what input assumptions are currently used by utilities in cost-effectiveness calculations, and whether they are used consistently. The June TRC Subcommittee meeting will include a discussion of these questions.

#### *Issue: Non-Energy Benefits*

Chris Neme, Energy Futures Group on behalf of NRDC, presented background on Non-Energy Benefits (NEBs), including NRDC's proposal to include percentage portfolio adders for NEBs. Lisa Skumatz, a national expert on NEBs, presented on how NEBs are calculated.

- *Status of issue resolution:* The June TRC Subcommittee meeting will include a discussion of NEBs in other jurisdictions. SAG participants will be asked to present responses to NRDC's proposal. SAG participants will also be asked whether there are additional NEBs proposals that should be considered.

#### *Issue: Marginal vs. Average Line Losses*

The TRC Subcommittee discussed marginal versus average line losses. Participants agreed that marginal line losses are more accurate than average line losses. Ameren Illinois does not disagree with the math provided by Chris Neme at the meeting. Ameren Illinois is reviewing other research and thinks there may be enough information to use a proxy number, in the absence of completing a study at this time. Ameren Illinois is interested in completing a study on this at some point in the future.

- *Status of issue resolution:* Ameren Illinois follow-up on this issue at the June TRC Subcommittee meeting.

#### *Issue: Administrative Costs*

The TRC Subcommittee discussed administrative costs. In the last IPA procurement, Ameren Illinois included an upward adjustment of 14% for administrative costs in IPA submission bids. Ameren Illinois's position is that all costs need to be accounted for in cost-effectiveness; for IPA programs, the only way to do that is at the program-level. NRDC's position is that portfolio-level TRC information does not belong in program screening; only costs that are truly incremental and related to that program should be included. ComEd does not include an administrative costs adjustment for IPA programs. IPA stated there are three categories of costs: 1) fixed costs; 2) incremental assignable costs, meaning costs that are assignable to a specific program; and 3) incremental non-assignable costs (such as 3% EM&V).

- *Status of issue resolution:* There is non-consensus in the Subcommittee about whether or not fixed, non-assignable costs should be included in the TRC screening for IPA programs. A follow-up discussion will be included at the June TRC Subcommittee meeting.

#### *Issue: Additional TRC Test questions*

Specific questions from ICC Staff on three additional TRC issues were circulated to the Subcommittee in the final draft meeting agenda, including 1) measuring interactive effects; 2) measuring dual baselines; and 3) cost-classifications of measure, incentive, program costs. Participants expressed concern about the timing to produce a response for individual programs. Instead, participants agreed to narrow the request for issues 1 and 2. Utilities and DCEO agreed

to follow-up on issues 1 and 2, answering how interactive effects and dual baselines are treated for IPA vs. 8-103/8-104 programs, during the TRC Subcommittee teleconference in May.

- *Status of issue resolution:* Issues 1 and 2 were discussed at the May 5, 2015 meeting. Issue 3 was addressed in an April 28, 2015 SAG call inviting both TRC Subcommittee and Policy Manual Subcommittee participants. A fourth additional issue, discount rate, was also discussed during the May meeting, as described below.

### **TRC Subcommittee Cost Classification Teleconference – Tuesday, April 28, 2015**

An initial discussion of how to classify costs related to the TRC Test was held at the April 21, 2015 Policy Manual Subcommittee meeting in Springfield.<sup>33</sup> Sue Nathan, Applied Energy Group, and Jennifer Morris, ICC Staff, worked on background research and presented draft language for discussion. Policy Manual Subcommittee participants agreed that a follow-up call was needed to continue discussing TRC cost classifications, and invite other interested participants. SAG participants, Policy Manual Subcommittee participants, and TRC Subcommittee participants were invited to meet via teleconference on April 28<sup>th</sup> to discuss draft language for the TRC Test section of Illinois Energy Efficiency Policy Manual Version 1.0. Jennifer Morris drafted proposed language for discussion, including various cost classification definitions. Participants discussed language and suggested minor edits during the teleconference. There was general consensus on the proposed language.

- *Status of issue resolution:* Jennifer Morris updated the language to respond to edits proposed during the call. Updated language was sent to TRC Subcommittee and Policy Manual Subcommittee participants for final review. Updated language is included in the Total Resource Cost Test section of the Policy Manual.

### **TRC Subcommittee Meeting #3 – Tuesday, May 5, 2015**

The TRC Subcommittee met by teleconference to discuss additional TRC issues raised by SAG participants, including interactive effects, dual baselines, and discount rate. Several participants submitted responses to ICC Staff questions on interactive effects and dual baselines in advance of this call, including utilities, DCEO, and independent evaluators.<sup>34</sup> An additional TRC Subcommittee meeting will be scheduled to discuss follow-up on these issues, as described below.

#### *Interactive Effects*

Ameren Illinois, ComEd, Peoples Gas-North Shore Gas and DCEO generally account for interactive effects in TRC Test calculations. Nicor Gas does not currently include interactive effects. Nicor Gas commented that most interactive effects are in lighting programs, but they are willing to track the effects, if possible (such as in the custom program).

- *Status of issue resolution:* Nicor Gas is reviewing whether it is possible to track interactive effects. The SAG facilitation team will draft a table to include a list of when interactive effects are being taken into account. IL-TRM Version 5.0 will likely need to be updated with additional language on interactive effects. In addition, there are several follow-up questions to be addressed. This issue will be discussed at a future TRC Subcommittee meeting (date TBD).

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<sup>33</sup> See Policy Manual Subcommittee: [http://www.ilsag.info/subcommittee\\_il\\_ee\\_policy\\_manual.html](http://www.ilsag.info/subcommittee_il_ee_policy_manual.html)

<sup>34</sup> The Issue/Response Tracking document is available for download on the [TRC Subcommittee page](#) of the SAG website.

### *Dual Baselines*

Jennifer Morris, ICC Staff, proposed that utilities and DCEO include dual baselines when calculating the TRC, including four (4) years at full savings and eleven (11) years with reduced savings (“method one”), as described in the Illinois Technical Reference Manual (“IL-TRM”). Ameren Illinois, ComEd, and DCEO currently use method one. Nicor Gas and Peoples Gas-North Shore Gas do not currently utilize method one. Peoples Gas-North Shore Gas does not offer any dual baseline measures at this time. Nicor Gas uses method four, which is to use the first year savings for the remaining useful life of four (4) years, and eleven (11) years with zero savings. In addition, Nicor Gas uses a modified version of the E3 calculator form California, which makes it difficult to incorporate dual baselines.

- *Status of issue resolution:* Nicor Gas and Peoples Gas-North Shore Gas are reviewing whether it is possible to include dual baselines in TRC Test calculations. Nicor Gas is reviewing whether the E3 calculator can be modified to include dual baselines, and the cost of a modification. This issue will be discussed at a future TRC Subcommittee meeting.

### *Discount Rate*

Phil Mosenthal, Optimal Energy on behalf of the Illinois Attorney General’s office, proposed that utilities and DCEO use a societal discount rate. Utilities and DCEO currently use the weighted average cost-of-capital discount rate. Mosenthal’s rationale is that using a societal discount rate results in lower risk to utilities, and most utilities in the northeast use a societal discount rate. Ameren Illinois responded that they are not willing to use a societal discount rate, and do not agree that using it would result in lower risk. Nicor Gas commented that Illinois is a TRC state, therefore the right discount rate to use in the weighted average cost-of-capital.

- *Status of issue resolution:* Ameren Illinois will provide a short presentation on this issue at a future TRC Subcommittee meeting (July 21, 2015).

## **TRC Subcommittee Meeting #4 – Tuesday, June 16, 2015**

### *TRC Subcommittee Report*

Celia Johnson, SAG Facilitation Team, presented the draft TRC Subcommittee Report, including a summary of each TRC Subcommittee meeting to date and the status of issue resolution.

- *Status of issue resolution:* Participants were asked to review and provide comments on the draft TRC Subcommittee Report. The SAG Facilitation Team will update the report following each meeting and it will be circulated again in advance of the final TRC Subcommittee meeting (October 6, 2015).

### *Non-Energy Benefits*

Celia Johnson, SAG Facilitation Team, presented additional research on quantifying NEBs in other jurisdictions as follow-up to TRC Subcommittee Meeting #2. Research indicates that other jurisdictions use varying cost for NEBs, from 10 to 30 percent. Some jurisdictions also include a price for carbon. Subcommittee participants provided several suggestions for additional research on state policies surrounding NEBs, including whether NEBs are adopted in other jurisdictions as a result of established policy and which states that include NEBs have fixed budget (versus an unlimited budget).

- *Status of issue resolution:* Subcommittee participants did not reach consensus on the treatment of NEBs in the 2016 IPA Plan. The follow-up question for consideration by the Subcommittee was whether participants would agree to addressing NEBs at the measure level through the annual IL-TRM update process, instead of establishing a

broad policy on the adoption of NEBs. Participants agreed to consider this option in advance of the next meeting.

#### *Status of DRIPE*

ComEd shared several additional studies that conclude the regression analysis may not be the correct approach to calculate DRIPE. These studies suggest that simulation modeling should be used to determine price suppression effect.

- *Status of issue resolution:* The additional studies/reports were added to the SAG website and circulated to Subcommittee participants for review. A follow-up teleconference was scheduled on July 8, 2015 to discuss the reports.

#### *Marginal vs. Average Line Losses*

ComEd provided average vs. marginal losses to Ameren Illinois. Ameren Illinois is completing research on the ratio from other jurisdictions, and will make a final decision prior to the July 15, 2015 IPA filing.

- *Status of issue resolution:* Subcommittee participants agreed that Ameren Illinois would use ComEd's marginal line loss information in the absence of marginal line loss information specific to Ameren Illinois.

#### *Administrative Costs*

Chris Neme, Energy Futures Group on behalf of NRDC, presented an illustrative example of allocating fixed administrative costs to programs for cost-effectiveness screening.

Subcommittee participants discussed options for tracking administrative costs. A proposed solution was for Ameren Illinois and ComEd to screen programs with two adders (7% for incremental and 11% for incremental and fixed) and report both results to the IPA. This would allow the IPA to make its recommendation to the Commission.

- *Status of issue resolution:* Subcommittee participants agreed to the proposed solution of screening using two adders, and reporting both screenings to the IPA.

#### *Follow-up on Previous Meetings*

TRC Subcommittee participants discussed follow-up on previous meetings. Ameren Illinois requested additional information on the overall impact to proposed changes to the TRC calculation. Chris Neme will prepare a spreadsheet for each utility for an upcoming meeting, summarizing how much the adders will increase net benefits. This spreadsheet will take into account what utilities already include as benefits. On the issue of whether IPA should conduct its own cost-effectiveness calculation, Subcommittee participants agreed that IPA does not need to complete independent cost-effectiveness screenings, but IPA needs to independently review assumptions. ICC Staff also requested that Ameren Illinois and ComEd provide a summary of what is included in their models, and where assumptions come from. Both utilities agreed to provide this information, with a Protective Order for avoided costs. Lastly, the Subcommittee briefly discussed the issue of whether ComEd included outdated information on DRIPE. Subcommittee participants agreed that this issue has been addressed and no further action is needed.

### **TRC Subcommittee Meeting #5 – Wednesday, July 8, 2015**

The TRC Subcommittee met by teleconference to discuss updated reports that address DRIPE and price impacts, as a follow-up to TRC Subcommittee Meeting #4. Reports are listed below with page references.<sup>35</sup>

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<sup>35</sup> Reports are also available for download on the [TRC Subcommittee page](#) of the SAG website.

Reports Addressing DRIPE and Price Impacts:

1. *Avoided Energy Supply Costs in New England: 2015 Report (revised April 2015)*
  - a. Chapter 1: Executive Summary (Section 1.4); page 1-16
  - b. Chapter 7: Demand Reduction Induced Price Effect; pages 7-1 to 7-38
2. *Avoided Energy Costs in Maryland – Assessment of the Costs Avoided through Energy Efficiency and Conservation Measures in Maryland (April 2014)*
  - a. Chapter 7: Demand Reduction Induced Price Effects (pages 32-43)
3. *Annual Report: The Costs and Benefits of Renewable Resource Procurement in Illinois Under the Illinois Power Agency and Illinois Public Utilities Acts (April 2012)*
  - a. Price impacts (pages 18-19)

NRDC's proposal is based on a regression model of DRIPE. The reports listed as 1 and 2 above conclude that a simulation model is more appropriate for DRIPE. NRDC does not agree with the analysis in the additional reports that address DRIPE, arguing that the New England market is fundamentally different from Illinois. ComEd stated that energy markets are very complex, however one advance of simulation modeling is it can recognize a lot of issues that a regression model does not consider. ComEd prefers that the Commission determine whether DRIPE has merit, prior to discussing whether it is appropriate to model in Illinois.

- *Status of issue resolution:* Based on the discussion, the SAG Facilitation Team concluded that pursuing a specific modeling approach in Illinois is not the right approach to take at this time. There are disagreements between TRC Subcommittee participants on whether the regression model or simulation model is appropriate to estimate DRIPE impacts. The SAG Facilitation Team will add this issue to the updated draft Comparison Exhibit, for discussion at TRC Subcommittee Meeting #8 (October 6).

**TRC Subcommittee Meeting #6 – Tuesday, July 21, 2015**

*Overall Impacts to TRC Test*

Chris Neme, Energy Futures Group on behalf of NRDC, presented a spreadsheet detailing an overview of the overall impacts of NRDC's proposed changes to the TRC Test for Ameren Illinois and ComEd. This discussion was a follow-up from the June 16, 2015 TRC Subcommittee meeting. Cumulative impacts included: Using marginal line losses instead of average line losses; electric energy DRIPE; Non-Energy Benefits (15% adder); and variable utility administrative costs assigned to IPA programs, with fixed administrative costs not assigned to IPA programs.

- *Status of issue resolution:* Chris Neme will add discount rate and a section on low-income adders to the overall impacts spreadsheet. The updated spreadsheet will be discussed at TRC Subcommittee Meeting #8 (October 6).

*Policy Impacts*

Keith Goerss, Ameren IL, suggested adding a discussion of policy impacts to changes in the TRC Test, both to Section 8-103 and 8-104 programs and IPA programs. Participants identified open policy and legal issues during this meeting. The issue will be discussed again at an upcoming TRC Subcommittee meeting.

- *Status of issue resolution:* The TRC Subcommittee will discuss the issue of how Section 16-111.5B can be fixed at TRC Subcommittee Meeting #7 (September 1). The SAG facilitation team will prepare a policy impacts chart for discussion at TRC Subcommittee Meeting #8 (October 6).

### *Non-Energy Benefits (NEBs)*

Annette Beitel, SAG Facilitator, lead a discussion of the procedural issue regarding NEBs: whether the IL-TRM process is the right venue for addressing NEBs, at the measure level. Subcommittee participants discussed pros and cons, and agreed that this is the correct approach. The rationale for addressing NEBs through the IL-TRM is 1) it is an established process with an end point; 2) it allows participants to address concerns about generic application of NEBs; and 3) it allows for more refined adders, to avoid the risk of uneconomic adders that may result from “blended” adders.

- *Status of issue resolution:* The procedural NEBs issue is resolved at this time, as Subcommittee participants agreed to address NEBs in the IL-TRM process. Draft workpapers on existing measures are due by August 1, 2015 to VEIC, the Illinois TRM Administrator. Participants that plan to submit NEBs with a measure were encouraged to consult with VEIC as to form, but should at a minimum identify the measure, level of NEBs, and the source.

### *Additional TRC Issues: Dual Baselines; Interactive Effects*

The dual baselines discussion was a follow-up to the May 5, 2015 TRC Subcommittee teleconference. Program Administrators were asked whether dual baselines were accounted for in TRC Test analysis (on an ex post basis) for Section 8-103, 8-104 and 16-111.5B programs, and if so, how they are accounted for. Jennifer Morris, ICC Staff, proposed that Program Administrators use Method 1<sup>36</sup> to calculate dual baselines. The majority of Program Administrators reported using Method 1. Subcommittee participants agreed that Method 1 is the appropriate method to utilize. Nicor Gas will continue using Method 5<sup>37</sup> for planning purposes.

- *Status of issue resolution:* The dual baselines issue is resolved, as Subcommittee participants agreed to use Method 1. A follow-up question is whether the dual baselines policy language should be included in the IL-TRM document, or elsewhere, such as the Illinois Energy Efficiency Policy Manual. This issue will be addressed in Policy Manual Version 2.0 discussions.<sup>38</sup>

The interactive effects discussion was also a follow-up to the May 5, 2015 TRC Subcommittee teleconference. Program Administrators and evaluators were asked how interactive effects are being taken into account, for both TRC and savings goal purposes for Section 8-103, 8-104 and 16-111.5B programs. The IL-TRM currently includes an interactive effects policy; however ICC Staff is concerned that it does not include enough detail on how Program Administrators should account for interactive effects. ICC Staff is interested in consistent treatment of interactive effects across programs. Jennifer Morris, ICC Staff, proposed updated policy language to require that Program Administrators include interactive effects for both savings goals and TRC Test purposes.

- *Status of issue resolution:* Subcommittee participants expressed concern about the proposed policy language penalizing gas utilities. Phil Mosenthal, Optimal Energy, on behalf of IL AG, will review and propose edits to the IL-TRM language on interactive effects as an alternate proposal. The Subcommittee will discuss at TRC Subcommittee Meeting #8 (October 6).

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<sup>36</sup> Method 1 = Using a dual baseline approach; use first year savings for the remaining useful life (RUL) ( $\Delta$ existing to efficient), and use lower savings ( $\Delta$ new standard efficiency baseline to efficient) for the remaining measure life. [Example: 4 years at first year savings, 11 years with reduced savings. (NPV Lifetime Benefits=\$3,205)]

<sup>37</sup> Use the first year savings and back into the artificial lifetime to arrive at the correct NPV Lifetime Benefits. Then apply first year savings over the artificial lifetime. (NPV Lifetime Benefits = \$3,205)

<sup>38</sup> See the SAG website for more information on the Policy Manual Subcommittee:  
[http://www.ilsag.info/subcommittee\\_il\\_ee\\_policy\\_manual.html](http://www.ilsag.info/subcommittee_il_ee_policy_manual.html)

### *TRC Cost Classification Follow-up*

Jennifer Morris, ICC Staff, summarized TRC cost classifications previously discussed by the Subcommittee, including classifications for incremental costs, incentive costs, and non-incentive costs. The issue discussed was whether any Subcommittee participants objected to the compromise discussed in spring 2015.

- *Status of issue resolution:* TRC Subcommittee participants did not object to the cost categories as described. These cost categories are defined in Illinois Energy Efficiency Policy Manual Version 1.0.<sup>39</sup>

### *TRC Reports*

Independent evaluators prepare TRC Reports for energy efficiency programs, separate from evaluation reports. ICC Staff, IL AG, and NRDC suggested adding this topic to the TRC Subcommittee to gain an understanding of how often reports are updated and discuss the preparation and dissemination to SAG of future TRC Reports. There is an interest in ensuring that TRC Reports include similar information across Program Administrators and avoid duplication.

- *Status of issue resolution:* The SAG Facilitation Team suggested including this discussion in Policy Manual Subcommittee Version 2.0, since it overlaps with pending draft EM&V templates. Subcommittee participants did not object to moving this to the Policy Manual Subcommittee. Policy Manual Version 2.0 discussions will begin in early 2016.<sup>40</sup>

## **TRC Subcommittee Meeting #7 – September 1, 2015**

### *2016 IPA Procurement Plan*

Brian Granahan, Illinois Power Agency, presented an overview of the draft IPA Procurement Plan, including a description of process, next steps and how IPA proposes to treat various TRC issues in the draft Plan.

- *Status of issue resolution:* Material arguments will be part of the public comment process for the 2016 IPA Procurement Plan.

### *Policy Impacts*

Keith Goerss, Ameren Illinois, presented on policy issues related to Section 16-111.5B of the Public Utilities Act.

- *Status of issue resolution:* The SAG facilitation team suggests that the TRC Subcommittee discuss statutory interpretation at the final TRC Subcommittee meeting. Follow-up issues and questions include:
  1. What are the unintended consequences that have occurred that stakeholders/utilities are concerned about?
  2. What is the right way to approach these consequences, separate from what is included in the statute? Can the TRC Subcommittee come up with a way to address this?
  3. Can the utilities describe their negotiations with vendors following Commission approval of IPA programs?

## **TRC Subcommittee Meeting #8**

*(Scheduled for Tuesday, October 6, 2015)*

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<sup>39</sup> See Policy Manual Subcommittee: [http://www.ilsag.info/subcommittee\\_il\\_ee\\_policy\\_manual.html](http://www.ilsag.info/subcommittee_il_ee_policy_manual.html).

<sup>40</sup> Id.

**Attachment C: Comparison Exhibit of Non-Consensus Issues**

*(To be added following the October 6, 2015 TRC Subcommittee meeting)*