

STATE OF ILLINOIS ILLINOIS COMMERCE COMMISSION

REPORT TO THE ILLINOIS GENERAL ASSEMBLY
CONCERNING COORDINATION BETWEEN GAS AND
ELECTRIC UTILITY ENERGY EFFICIENCY PROGRAMS AND
SPENDING LIMITS FOR GAS UTILITY ENERGY
EFFICIENCY PROGRAMS



Pursuant to Subsections (d) and (k) of Section 8-104
of the Illinois Public Utilities Act

August 30, 2013



ILLINOIS COMMERCE COMMISSION

August 30, 2013

The Honorable Members of the Illinois General Assembly
State Capitol
Springfield, Illinois

Dear Members of the General Assembly:

Enclosed is the Illinois Commerce Commission's Report Concerning Coordination Between Gas and Electric Utility Energy Efficiency Programs and Spending Limits for Gas Utility Energy Efficiency Programs.

This report is submitted in compliance with Section 8-104 Subsection (k) of the Illinois Public Utilities Act. Subsection (k) required the Commission to develop and solicit public comment on a plan to foster statewide coordination and consistency between statutorily mandated natural gas and electric energy efficiency programs to reduce program or participant costs or to improve program performance.

Sincerely,

A handwritten signature in black ink that reads "Douglas P. Scott".

Douglas P. Scott
Chairman

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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of the Illinois Public Utilities Act

August 30, 2013

Executive Summary

The Illinois Commerce Commission reports its findings and recommendations to the General Assembly on a plan to foster coordination of utility gas and electric energy efficiency (“EE”) programs and to determine whether spending limits for gas EE programs unduly constrain the procurement of EE measures.¹ The Commission reviewed comments on its January 1, 2012 Plan and the statute’s limitation on spending on EE measures.

ENERGY EFFICIENCY STATUTORY REQUIREMENTS

Section 8-104 of the Public Utility Act requires gas utilities to implement cost-effective EE measures to meet annual incremental energy savings.² The volume of energy savings is based on 2009 gas deliveries and increases over time. The first Program Year from June 1, 2011 through May 31, 2012 required a 0.2% reduction from 2009 sales. The annual incremental goals increase each year until the 2018-19 Program Year, when the efficiency goal is either 1.5% of 2009 deliveries for the Program Year or a cumulative incremental reduction, for the period from June 1, 2011 through May 31, 2019, of 7.1%. For Program Years beginning on or after June 1, 2019, Section 8-104 requires an additional 1.5% reduction of 2009 sales volumes.³

Subsection (d) of Section 8-104 limits the increase in the amounts paid by retail customers in connection with natural gas service to an average of no more than 2% in a three-year reporting period.⁴ In the event the savings goals specified in Subsection (c) cannot be reached within the 2% increase in the amounts paid by retail customers, the Commission can modify the savings goals. The statute requires the Commission to determine whether the 2% spending limits create an undue constraint on the procurement of cost effective EE measures.

The Commission provides this Report in compliance with the September 1, 2013 requirement of Section 8-104, Subsection (k), of the Public Utilities Act. The Plan:

- includes continuing an Illinois EE Stakeholder Advisory Group (“SAG”) process in which interested stakeholders receive regular updates about utility program performance and provide feedback to the utilities about the programs;
- recommends continuing existing coordination efforts between the gas and electric utilities (Commonwealth Edison, Ameren Illinois Company, Nicor Gas, Peoples Gas Light and Coke and North Shore Gas (People’s and North Shore may be collectively referred to as “Integrus”), and the Department of Commerce and Economic Opportunity (“DCEO”); and

¹ Subsections (k) and (d) of Section 8-104 of the Illinois Public Utilities Act (“PUA”) require the report to the Legislature.

² 220 ILCS 5/8-104.

³ 220 ILCS 5/8-104(c).

⁴ Section 8-104 requires gas utilities to file triennial Plans every three years beginning on October 1, 2010.

- recommends continuing coordination between Ameren’s gas EE programs and municipal electric and water programs which overlap its gas distribution system.

COMMISSION RECOMMENDATIONS

Lower gas prices and a smaller budget for gas efficiency create challenges in coordinating EE programs between gas and electric utilities. Other challenges to coordination include the need to allocate costs and potential conflicts-of-interest between the coordinating utilities. This Report identifies some foreseeable differences between the utilities, including the use of differing metrics to evaluate vendors, differing expectations for reporting requirements, different approaches to marketing and communicating branded efforts, and different approaches to handling call center assistance.

This Report assesses several of the Plan’s initial recommendations to lower costs and increase the effectiveness of EE programs, including initial recommendations to:

- 1) increase planning periods from three years to five years;
- 2) reduce or eliminate the emphasis on first-year savings; and
- 3) remove Commission review and approval of DCEO EE programs.

With regard to the first and third initial recommendations, and based on almost uniform opposition, the Commission no longer recommends increasing the lengths of the planning periods or removing Commission review and approval of the DCEO EE programs. The Office of the Illinois Attorney General, CNT Energy, OPower, ComEd, The Environmental Law and Policy Center (“ELPC”), and The Citizens Utility Board (“CUB”) provided public comments.

As for the second initial recommendation, to reduce or eliminate the emphasis on first-year savings, it has in large part been addressed. Since the Plan was submitted for public comment, the General Assembly has amended the electric EE law (Section 5/8-103 of the Illinois PUA) to allow electric utilities to meet its goals by either meeting annual goals or cumulative annual savings goals over a three-year planning period. The gas EE law already has a similar provision.

Since the first triennial Plans of the gas utilities run through May 31, 2014, the Commission does not have the information to determine whether each of the affected gas utilities have met the savings requirements for the not-yet-complete first triennial Plans. Additionally, the gas utilities will not file their second triennial Plans until October 1, 2013. That said, the Commission understands that gas utilities anticipate filing Plans that will request modified savings goals for the second triennial period. Unanticipated low natural gas prices driven by the growth of hydraulic fracturing will likely be the primary reason for an inability to meet the unmodified statutory goals in the second triennial plans. Based on U.S. Department of Energy analysis, real wholesale prices are significantly lower than 2009 estimates projected, and current projected prices for

2030 are only one percent higher than projected for 2013 in 2009.⁵ Lower current and projected gas prices have reduced the cost-effectiveness of gas EE and have caused a need to raise incentives relative to what would have been necessary if the 2009 projections had proven accurate.⁶

As explained in the attached Report, the Commission does not find that the EE spending cap currently unduly constrains the procurement of energy efficiency measures. The Commission recommends maintaining the current 2% limitation on the increase in the amount paid by an average retail customer. The gas EE programs are in the early stages of development. As the programs mature and as commodity prices change, evidence may present itself that would warrant a reexamination of the limitations imposed upon it by the spending caps in Subsection (d).

⁵ Energy Information Administration's Annual Energy Outlook 2009 and Annual Energy Outlook 2013.

⁶ A feasibility study commissioned by Peoples Gas and North Shore Gas found the volume of cost-effective gas savings achievable with the currently forecasted gas prices amounts to at most 55% of the Peoples Gas goals and at most 75% of the North Shore goals for the 2014-2017 planning period. Ameren indicates that the Residential portfolio approved in 2010 for its initial triennial Plan would not be cost-effective for its second triennial Plan considering the gas price forecasts used in the development of its Plan for the 2014-2017 period.

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I. **Plan to Foster Statewide Coordination of Statutorily Mandated Natural Gas and Electric Energy Efficiency Programs:**

A. **Background:**

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

The Plan was made available for public comment on January 1, 2012. Public comments on the Plan were provided by The Office of the Illinois Attorney General, CNT Energy, OPower, ComEd, The Environmental Law and Policy Center (“ELPC”), and The Citizens Utility Board (“CUB”).

The Plan has several components. The first component recognized that coordination was in its infancy as the gas utility programs under the law had only existed for about seven months at the time the Coordination Plan was made available for public comment. The gas utility programs implementing Section 8-104 are still relatively new as they have been in place for less than three years⁷. The electric utilities’ programs had and

⁷ Prior to the passage of 8-104, Ameren Illinois Gas, Integrys, and Nicor Gas all had EE programs approved by the Commission. The programs were smaller in scale than those required under 8-104 and were operational for 1.5 to 3 years depending on the utility.

have greater experience and awareness in the EE markets as they existed for about 3.5 years in January 2012 and slightly more than 5 years now.

Coordination now occurs on a number of fronts. All of the utilities and DCEO participate in a Stakeholder Advisory Group (“SAG”). The SAG originated in 2008 when the Commission ordered the electric utilities to provide a forum for interested stakeholders to receive information and provide comments on their programs approved in dockets 07-0539 and 07-0540 for Ameren and ComEd respectively.

The Commission extended the SAG participation to gas utilities in the approval of the respective plans filed in 2010 in dockets 10-0564 and 10-0562 for Peoples/North Shore and Nicor respectively. The SAG allows the utilities to provide progress reports and program operational information with each other and stakeholders interested in the EE process. Stakeholders also provide their feedback on program operations as well as input on potential avenues to explore for further energy savings. In addition to the utilities and DCEO, stakeholder organizations regularly participating in the SAG include the Office of the Illinois Attorney General, the Citizens Utility Board (“CUB”), the Natural Resources Defense Council, the Environmental Law and Policy Center (“ELPC”), and the City of Chicago.

The Commission also ordered the utilities to develop a statewide technical reference manual (“TRM”)⁸. The purpose of the TRM is to provide consistency across utilities in the methodologies used to calculate energy savings from various types of equipment. A TRM is a living document that is updated annually. Participants in the SAG designed a Request for Proposals to hire a consultant to develop the TRM. Vermont

⁸ The development of a TRM was ordered in each utility’s 2010 EE plan filing. The Docket Numbers are 10-0562 (Nicor), 10-0564 (Integrus), 10-0568 (Ameren), 10-0570 (ComEd).

Energy Investment Corporation was selected as the consultant in October 2011 and began work on the TRM in November 2011. The Commission approved Version 1 of the TRM in 2012, and proceedings are currently underway to update it. The SAG participants continue to provide comment and assist in the completion of the TRM updates.

In addition to the SAG meetings and the development of a statewide TRM, coordination is taking place between the individual utilities and DCEO. A program named CANDI (ComEd, Ameren, Nicor, DCEO, Integrys) is designed to coordinate efforts to reach and simplify the incentive process for program allies that service Commercial and Industrial (“C&I”) customers. CANDI’s efforts include an attempt to provide consistent incentive offerings across utility territories, share program best practices and the establishment of consistent default measure values. The objective of these actions is to reduce confusion among vendors and contractors and other trade allies who perform services across utility territories.

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

allies for various programs. Additional coordination with DCEO included a grant from DCEO for a CFL recycling program and a grant from DCEO to coordinate a lighting markdown across Ameren, municipal and co-op electric territories.

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

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

Some examples of coordination that are taking place include⁹:

- **Multi-Family Direct Install:** This program provides CFLs, low-flow showerheads, and aerators to all units within multi-family buildings. ComEd has joint programs with Nicor and Integrys.
- **Single Family Home Performance Tune Up:** A joint program between Nicor and ComEd provides CFLs, low-flow showerheads, and aerators to homeowners. Additionally, a comprehensive energy audit is performed and recommendations about air sealing and insulation are provided along with

⁹ The examples listed are not comprehensive. Programs may be discontinued upon evaluation and/or additional programs may be added.

information about incentives. A similar program is being implemented between Integrys and ComEd.

- **New Construction:** Both residential and Commercial & Industrial (“C&I”) programs are designed to promote energy efficient building design. The C&I program is a ComEd/Nicor joint program. Since submittal of the Plan for public comment, the residential program between ComEd and Nicor became operative. The first year of the program is being evaluated.
- **Retro-commissioning:** This Program provides incentives to C&I customers to re-optimize building systems and operations through proper use of controls and other low cost operational modifications. Joint programs between ComEd and Nicor and ComEd and Integrys exist.

B. Challenges to Coordination:

Despite the actions taken by the Commission, Utilities, and Stakeholders to increase coordination between gas and electric EE program administration, several challenges to coordination remain. One of the most significant has been the difference in the age and experience of the gas utility programs compared to the electric utility programs. Section 8-103 required electric utilities to implement EE programs three years earlier than Section 8-104 required EE programs by the gas utilities. Both Sections of the PUA also have a gradually increasing budget for the procurement of energy efficiency. As a result, at the time the Coordination Plan was submitted for public comment, the electric utilities had larger budgets, larger savings goals as a percentage of deliveries, and more

experience managing programs¹⁰. Over time, as the gas utilities' goals increase and they gain more experience, the level of coordination and savings attributable to coordination is expected to increase.

The differences in budgets and savings mandates are important because promoting energy savings is contrary to the direct interests of the utilities. To the extent that utility revenues are tied to sales volumes by usage-sensitive rates, a reduction in sales results in a short-term loss of profit. As such, one would not expect a utility to exceed the savings goals by more than is required to comply with the statute.¹¹ In the initial Plan provided for public comment it was pointed out that ComEd discontinued programs in Year 1 of its first plan and the gas utilities filed initial plans that did not fully utilize their available budgets for the first three program-years. The Coordination Plan identified the possibility that ComEd shut down its programs because it had reached its incremental annual goal and did not receive additional benefits to continuing the Programs during the initial year of the program. ComEd's public comments additionally attribute shutting down programs due to a concern with exceeding the spending limitations for electric Program Year 1.

This effect of an emphasis on first-year savings was mitigated to an extent by the Commission allowing some carry over of electric savings in excess of goals and the gas law's provision to allow mandates to be met through either annual savings or cumulative savings. With respect to the electric EE programs, the effect of an emphasis on first-year

¹⁰ There were smaller gas EE programs prior to the enactment of Section 8-104. Some coordination existed between ComEd and Integrys and ComEd and Nicor. The previous gas EE Programs were much smaller in terms of budgets, and there were fewer opportunities to coordinate due to the differences in size of the gas and electric programs.

¹¹ Savings are uncertain and determined through evaluations of the programs. Utilities estimate savings based on measures incented and/or installed and usually attempt to overshoot the goal in order to withstand ex-post evaluation.

savings has been further diminished by the General Assembly's amendments to Section 8-103 which allow an electric utility to either meet its goals through annual incremental savings or through cumulative savings over a triennial Plan.

Given the smaller scale of gas programs due to the differences in budgets and savings goals between gas and electricity EE programs in January 2012 when the Plan was developed, potential coordinated projects were limited in size and scope. Over time, gas budgets and goals are scheduled to increase which will enable expanded and additional joint projects with electric utilities.

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

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

Some examples of foreseeable differences between utilities include: (1) different metrics for evaluating vendor performance, (2) different expectations for reporting

requirements, (3) different approaches to marketing and communicating branding efforts, and (4) different approaches for handling call center assistance.

C. Plan:

The Coordination Plan presented in January 2012 has the following components:

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

i. Continue to encourage coordination through SAG and CANDI:

Currently, the utilities are developing strategies to coordinate programs and resolve the difficulties that arise with joint programs. The SAG meetings provide a mechanism for the utilities to provide information to and receive comments from interested stakeholders and to share information with each other. Theoretically, cost savings may arise from joint programs through economies of scope; it is cheaper to do two things together than do both separately. For example, for programs involving an implementer visit, both gas and electric measures could be installed on a single trip. Some programs are not justifiable as

a stand alone for one utility, and other programs can be done at lower cost by reducing duplication of resources.

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

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

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

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

Additional methods that could reduce the costs of energy efficiency and improve the overall quality of the programs require changes to Sections 8-103 and 8-104. To achieve these changes, the Commission plans to work with interested parties on possible statutory improvements. The Plan provides several legislative recommendations to consider: (1) increasing planning periods from three years to five years, (2) reducing or eliminating the emphasis on first-year savings, and (3) removing Commission review and approval of DCEO programs.

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

The Coordination Plan proposed reducing or eliminating the emphasis on first-year incremental savings. The premise of the recommendation was that reducing or eliminating the emphasis on first-year savings could potentially increase the benefits to ratepayers in

several ways. First, it may reduce the incentives for a utility to shut down a program once it reaches its goal. The Coordination Plan provided an example of ComEd estimating that its savings for the first Program Year were sufficient to withstand any downward adjustments that independent evaluators may have judged appropriate. As a result, ComEd discontinued its program until the commencement of Year 2¹². The Coordination Plan attributed such actions as a rational response to the emphasis on first-year savings rather than lifetime savings or cumulative annual incremental savings goals. Had the goals been tied to cumulative savings, there would have been greater incentive to continue the programs through the entirety of the first year. Any savings beyond the annual incremental goal could have been credited to future savings requirements. The lack of continuity could increase costs because starting and stopping programs involves financial costs associated with having to provide information to vendors that programs are no longer available and then again through reaching out to vendors to inform them the programs are available. In addition, there may be costs from convincing vendors to associate themselves with programs perceived to be unreliable and/or sporadic.

The Coordination Plan also reasoned that longer term savings goals are more consistent with the stated objectives of Subsection (a) of Section 8-103 to reduce or delay the need for infrastructure investment. The emphasis on first-year savings may lead to an incentive to focus on measures and programs that have low costs per first year unit of energy savings as opposed to measures and programs with low lifetime per unit costs. As such, programs with one year savings such as consumer behavior modification may take emphasis over programs that can save energy for 10 to 20 years or even longer. A

¹² As noted previously, ComEd asserted in its public comments that the reason for stopping programs was a concern with exceeding budget limitations for the first Program Year.

potential advantage of longer term programs is that the savings persist and are more likely to reduce the need for infrastructure investments. The Coordination Plan also pointed out that another example of short-term savings goals misaligning with long-term goals is the emphasis placed on lighting efficiency. Efficient light bulbs are a low cost method of achieving savings and compact fluorescent bulbs last for several years. Under the current program, these are an ideal measure for reducing energy deliveries. It should be noted that one of the anticipated results of energy efficiency is to reduce the need for investments in infrastructure. However, the investments are more likely to be needed to meet demands in peak periods (usually daylight hours in the summer months). Lighting measures in residential units are used primarily in the evening. Savings through such measures does little to avoid or delay the need for additional infrastructure investment.

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

The final proposal the Coordination Plan presented for consideration was removing the Commission oversight of DCEO's plans to achieve its portions of the energy savings. The premise was that the proposal could reduce the costs to ratepayers. Each utility must coordinate with DCEO to determine the savings for which DCEO is responsible and for which the respective utility is responsible. These communications have a cost to both DCEO and the respective utilities. The development and filing of a plan also has a cost. The proposal reasoned that eliminating Commission oversight of DCEO's portion of a plan could reduce many of these costs and provides either savings or increased funds available

for EE investments. The Coordination Plan pointed out that DCEO is overseen by the Governor's Office and has decades of experience managing energy programs and reasoned that it may be a better alternative to redesign the laws such that the funding that DCEO receives and the purposes for which those funds may be used are clearly specified but oversight of the DCEO programs are left to the Governor's Office.

D. Nature of Public Comments:

The focus of public comments was largely on item 3 of the Coordination Plan. No party supported and several parties opposed the proposals to increase the Planning Periods from three years to five years or to remove Commission oversight of the DCEO programs. The primary opposition to increasing the Plans' length was that markets change too rapidly and that it's in the best interest of ratepayers to have Plans reviewed and updated more than once every five years. After reviewing the comments the Commission withdraws the Coordination Plan's recommendation to increase the length of the EE Plans.

The primary opposition to removing Commission oversight of the DCEO programs is a concern that EE programs run by DCEO would be less transparent and there would be fewer assurances that the programs are as effective as possible. If this concern comes to fruition, the lack of Commission oversight and statutory guidelines that come with that oversight could lead to lower quality programs. The Commission recognizes this potential and withdraws the recommendation to remove its oversight of DCEO's programs.

There was more support for eliminating or reducing the emphasis on first-year savings. CUB opposed this proposal because of the Commission's suggestion to modify

“the savings goals such that the Commission is charged with determining the best method of avoiding or delaying the need for infrastructure investment within a budget constraint that the General Assembly deems appropriate.” The AG and ELPC were generally supportive of reducing the emphasis on first-year savings but somewhat differed on an alternative. ComEd commented that its portfolios are designed to diversify savings between different customer classes and across different time horizons (short term savings and long term savings). ComEd was neutral to changing the goals as it did not believe it would impact its decisions greatly. In ComEd’s opinion, the goals were large enough and the budget was large enough that it needed to do as much as possible (both a short term and long term focus) in order to insure it met its savings requirements.

The Commission notes that the General Assembly recently amended the electric utility EE statute (220 ILCS 5/8-103) to de-emphasize first-year savings by allowing a utility to meet its goal by either reaching the incremental savings goal for that year or by reaching a cumulative savings goal for a triennial Plan. The gas utility EE statute was created with a provision to allow a utility to meet its required savings by either reaching an annual incremental savings or a cumulative incremental level of savings.

The Commission still believes that changes towards longer term savings goals (especially for electric utilities) may potentially better align to the stated objectives of avoiding or delaying the need for new generation, transmission, and distribution infrastructure. The Commission will continue to seek input from interested stakeholders and cooperate in any legislative proposals towards this goal. In the meantime, the Commission believes that adding cumulative first-year goals might remove some of the disincentives associated with EE programs.

E. Combined Heat and Power Systems

On July 15, 2013, Public Act 98-90 (“PA 98-90”) became law and took effect. Among its provisions, PA 98-90 revised the definitions of Energy Efficiency Projects (in the Illinois Finance Authority Act) and Energy Efficiency (in both the Illinois Power Agency Act and Public Utility Act) to include measures that reduce the total Btu of electricity and natural gas needed to meet the end use or uses.” These changes provide further impetus and authority for electric and gas utilities to coordinate on energy efficiency measures such as Combined Heat and Power (“CHP”). CHP systems, which are integrated systems that use a single fuel source to produce both thermal power and electric power, have the potential to increase the amount of combined power produced from any given level of fuel and reduce emissions. Such technologies have the potential, particularly when jointly coordinated, to augment both electric and gas energy efficiency plans.

II. Analysis of Impact of Budget Limitations on Energy Efficiency Procurement

Subsection (c) of Section 8-104 provides the energy savings requirements for a gas utility. The savings requirements are based on the amount of gas a utility delivered to retail customers during the calendar year 2009. A gas utility can meet its savings requirement by reaching an annual level of savings prescribed in Subsection (c) or by showing that the total savings associated with the measures implemented after May 31, 2011 were equal to the sum of each annual incremental savings requirement from May 31, 2011 through the end of the Program Year in question. The annual incremental and cumulative savings by Program Year are as follows:

- (1) 0.2% by May 31, 2012;
 - (2) an additional 0.4% by May 31, 2013, increasing total savings to .6%;
 - (3) an additional 0.6% by May 31, 2014, increasing total savings to 1.2%;
 - (4) an additional 0.8% by May 31, 2015, increasing total savings to 2.0%;
 - (5) an additional 1% by May 31, 2016, increasing total savings to 3.0%;
 - (6) an additional 1.2% by May 31, 2017, increasing total savings to 4.2%;
 - (7) an additional 1.4% by May 31, 2018, increasing total savings to 5.6%;
 - (8) an additional 1.5% by May 31, 2019, increasing total savings to 7.1%;
- and
- (9) an additional 1.5% in each 12-month period thereafter.

Subsection (f) requires a gas utility to file a three-year plan with the Commission beginning on October 1, 2010 for the period of June 1, 2011 through May 31, 2014 and then every three years thereafter. Subsection (d) limits the energy efficiency (“EE”) implemented in any three-year planning period “by an amount necessary to limit the estimated average increase in the amounts paid by retail customers in connection with natural gas service to no more than 2% in the applicable 3-year reporting period.” In the event that the goals cannot be met within the spending limitation set forth in Subsection (d), the Commission can modify the savings goals. Subsection (d) further directs the Commission to determine if the spending limitation unduly constrains the procurement of EE and report its findings to the General Assembly by September 1, 2013.

To date, it appears that each of the affected gas utilities will meet or exceed the savings levels set forth for the period June 1, 2011 – May 31, 2014; however, the

Commission has not opened proceedings to determine those savings as the first three-year period is ongoing.

Gas utilities' reports indicate an inability to meet the second three-year-period goals within the spending limitations. A number of factors negatively affect the ability of gas utilities to meet their statutory goals going forward. The primary factor is the significant decline in gas prices since the enactment of Section 8-104 in 2009. Projections of future gas prices have also dropped precipitously with the projected gas prices between 2013 and 2030 being as much as 46% lower for some future years than what was anticipated in 2009¹³. Lower gas prices reduce the dollar value of energy savings - lowering EE measures cost-effectiveness which both reduces the number of cost effective EE measures and increases required incentive costs. The impact of higher required incentive costs is compounded by the lower prices decreasing EE budgets which are limited to a percentage of the utilities revenues.

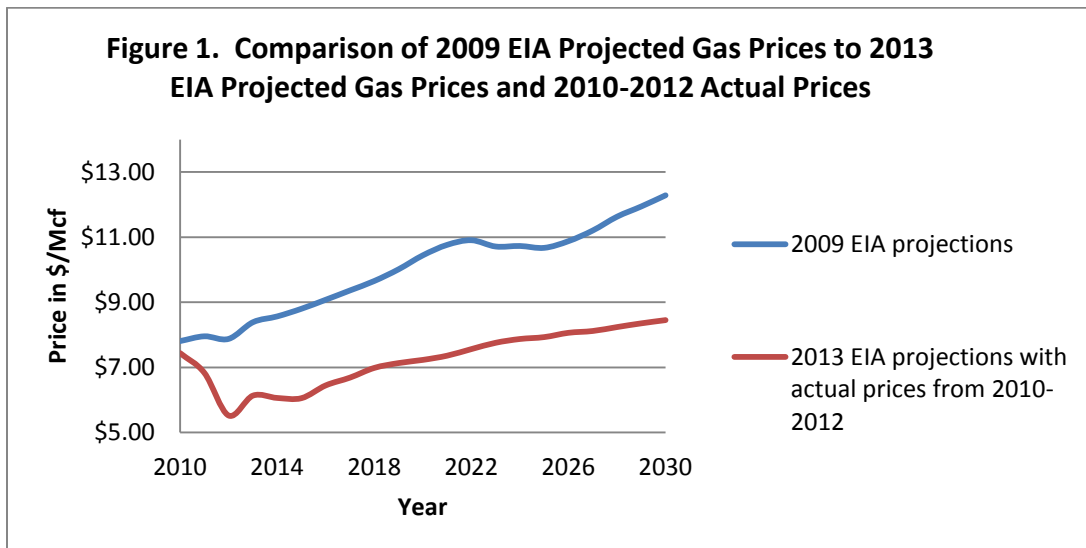
A second factor increasing the difficulty of meeting the utility savings goals is higher mandated EE product standards which lower measure savings by raising the baseline from which the savings are measured. Third, rate design which increases fixed charges while decreasing volumetric (per therm) charges to decrease the volatility of customers' bills and utility revenues has decreased customer incentives to reduce gas usage. Each of these factors is discussed in more detail below.

¹³ Price projections referenced are from the Energy Information Administration's 2009 and 2013 editions of the Annual Energy Outlook.

A. The Effects of Lower Gas Prices

With respect to low gas prices, the Commission notes that gas prices have fallen substantially since 2009 and the most recent price forecast for 2013-2030 is 34%-46% per year lower than it was in 2009.

Figure 1 shows the difference in gas price forecasts made by the Energy Information Administration in its 2009 and 2013 Annual Energy Outlook publications as well as the actual prices from 2010-2012. The years 2009 and 2013 are chosen because 2009 represents the most recent forecast available to the General Assembly at the time it passed Section 8-104 and 2013 represents the most recent forecasts available to gas utilities as they prepare their Plans for the June 2014 through May 2017 periods. The graph show prices decreased rather than increased since 2010. Also, both the level of future prices and the rate of increase in prices are expected to be lower.



The prices are in 2011 GDP-deflated dollars. The 2009 forecast predicted a price of \$8.38/Mcf in 2013. The 2013 forecast predicted a price of \$6.13/Mcf for 2013. That is, the 2009 prediction is over 36% higher than the 2013 prediction. The 2009 and 2013 predictions for gas prices in 2030 are \$12.29 and \$8.45, respectively. The 2009 prediction for 2030 is over 45% higher than the 2013 prediction. The 2009 predicted price for 2012 was \$7.87. The actual price in 2012 was \$5.85. The 2009 prediction was over 42% higher than the actual price. The latest prediction for 2030 is only one percent above what the 2009 price forecast predicted for the year 2013.

The price of gas has at least three effects on EE procurement. First, the benefits from EE largely stem from the value of avoided gas usage. When the price of gas decreases, the TRC Test value for measures and programs also decreases. Some measures are no longer cost-effective. Other measures become marginally cost-effective. This appropriately limits the number of measures a utility can offer as these cost-ineffective measures produce negative benefits for ratepayers. To illustrate the effect that lower gas prices have on cost-effectiveness, consider a presentation made by Ameren to the SAG. In that presentation Ameren provided a scenario in which residential and C&I sector budgets were approximately equal. The Residential Portfolio would have a TRC Test value of 0.78 (every dollar spent on residential gas EE provided 78 cents of benefits to customers) while the C&I Portfolio had an estimated TRC Test value equal to 2.17 (every dollar spent on C&I EE provided \$2.17 in benefits). The scenario presented by Ameren is indicative of the effect of lower gas prices. The programs in the Residential and C&I portfolios were all existing programs that were approved in the previous EE Plan filed with the Commission just two years prior. Most of the measures in the respective

portfolios were cost-effective with the price projections used in 2010. With the price projections Ameren is expected to use in 2013, so few residential EE measures are cost-effective that a portfolio consisting of already-existing-programs-and-measures is not close to being cost-effective to customers.

Additional evidence that gas prices affect the ability to reach the unmodified goals comes from a recent feasibility study conducted on behalf of Integrys. It concludes that the low gas prices severely limit the amount of cost-effective energy savings. Under the unreasonable assumption¹⁴ that every single cost-effective measure was implemented, the study concluded that North Shore Gas could achieve 3.6-6.3 million therms in the next three year Plan period. Peoples Gas could achieve 13.8-22.5 million therms. The unmodified savings requirements are 8.3 million and 42 million therms for North Shore and Peoples, respectively. The estimated cost-effective savings is at most 55% and 75% of Peoples' and North Shore's only respective goals for the next triennial Plan.

The lower gas prices also affect a customer's incentive to purchase EE measures. Since the value of avoided gas use is the primary source of savings, as gas prices decrease, there is less benefit to a consumer from purchasing gas-saving equipment. The reduction in benefits to a customer requires a greater incentive payment on the part of a utility in order to induce the consumer to purchase EE equipment. Higher incentive payments lead to fewer total measures that can be incented within any given budget.

Lower gas prices decrease the total budgets available to a utility. Since the spending limitations are tied to a 2% increase in the amount paid by an average retail

¹⁴ The assumption is that every cost-effective device is installed. This is unreasonable because most customers are not willing to remove a furnace, water heater or other costly equipment that has a significant expected remaining useful life.

customer in a three-year reporting period, when gas prices are higher, the customer pays more overall and the budget available to a utility's program increases. When prices fall the budgets fall. Increasing the limit beyond 2% is effectively requiring ratepayers to pay more for EE investments at a period when the benefits from EE are diminished.

B. Technological Standards are Changing

A second factor increasing the difficulty of meeting the utility savings goals is that the US Department of Energy, federal legislation or sometimes legislation from populous states such as California¹⁵ periodically increases efficiency standards for products. In addition to lower gas prices reducing the cost effectiveness of EE, EE opportunities for utility programs are affected by mandated EE upgrades which raise baseline efficiencies and eliminate previously cost effective measures. The best example is the compact fluorescent light bulbs ("CFL") that have been the staple for electric EE programs. Federal standards (Energy Independence and Security Act of 2009) are being phased in to replace standard incandescent bulbs. These standards raise the baseline from which the savings are measured and increase the number of CFLs purchased for reasons other than the utilities' EE programs. Fewer savings from the utility CFL EE programs is the likely result.

More stringent building and appliance standards also make it more difficult to reach utility EE goals.

¹⁵ Although California legislation is not enforceable in Illinois, manufacturers sometimes change the production of all equipment in order to comply with the California standard. This occurs because the population of California is large enough that it is more economical to change the production template for all production than it is to either not sell the product in California or to have separate production processes for California and everywhere else.

Ignoring the utility EE programs, rising standards reduce overall energy use, which, in turn, reduces the incremental effectiveness of building and appliance utility EE programs. Some utility measures will no longer be cost effective and the savings from the affected measures that remain cost effective are reduced¹⁶

C. Potential Change to Ratemaking Trends

The Commission currently allows the largest portion of gas distribution costs to be recovered through monthly per customer charges. An alternative means to recover costs is through higher volumetric (i.e., per therm) charges. Recovery through monthly customer charges provides more stability in the amount of revenue that a utility recovers and provides less variability in customer bills. The number of customers has little variation from month to month or year to year. Delivery volumes are highly weather sensitive. Customers use less gas in the summer than in the winter and in warmer winters than in colder winters. The volumes being used by customers is also trending downward as a result of EE programs and improved appliance and building standards.

A recent ruling by the 2nd Circuit Court of Appeals upheld a Commission tariff that permitted Peoples and North Shore Gas to reconcile over or under recovery of revenues

¹⁶ . An example which may occur in the near future is that higher minimum efficiency standards for furnaces could render utility programs to incent efficiency upgrades to be cost-ineffective. The minimum efficient furnace is currently rated 80% Annual Fuel Utilization Efficiency (“AFUE”). Utility EE programs provide incentives for the purchase of 92% and 95%+ AFUE furnaces. New furnace standards with a 90% AFUE were expected to go into effect in May 2013. The U.S. Department of Energy suspended those standards as part of a settlement to a lawsuit and is expected to pursue more hearings and studies on the matter. If the 90% AFUE standard had gone into effect as scheduled, 92% AFUE furnaces certainly would no longer be cost-effective EE measures and most 95%+ furnaces would fail a TRC Test as well. While energy use would be expected to decline as a result of increased minimum efficiency standards, there would be little need for utilities to provide residential customers with incentives for measures to reduce their largest source of gas use as the DOE standard would have required customers to purchase more efficient measures anyway.

resulting from deliveries being higher or lower than anticipated. The result of this ruling is that the Commission can provide a mechanism for revenue stability that lowers the monthly customer charges and increases the volumetric charges. Such a change can decrease energy use by providing a greater price signal without affecting the overall bill to an average retail customer¹⁷.

For example, if an average customer uses 1000 therms annually and a utility's revenue requirement is \$480 per customer, a purely fixed monthly charge would equal \$40 (\$40/month times 12 months is \$480). A purely volumetric charge would equal \$0.48/therm (\$0.48/therm times 1000 therms is \$480). When the customer charge is \$40/month, there is no benefit from reducing usage because a customer still pays \$40/month regardless of usage. However, when distribution charges are recovered volumetrically, each therm not consumed reduces the customer's bill by that amount¹⁸. These examples of a 100% fixed customer charge and a 100% volumetric charge are for illustrative purposes only. In actuality, costs are recovered through a combination of fixed monthly charges and volumetric charges. Currently the majority of costs are recovered through fixed monthly charges.

The usage forecasts provided by the utilities in rate cases generally predict a price elasticity of demand of about -0.1. That is, when other factors that affect natural gas use remain unchanged, a 1% increase in price results in about a 0.1% reduction in natural gas use. The utilities' forecasts generally account only for the one-year effect of price on gas

¹⁷ The Commission would need to evaluate the merits of such a change on a utility by utility basis as rate cases are filed.

¹⁸ The average customer's bill would not be affected. Not all consumers use the same amount of gas. Higher use customers would experience an increase in their bills and lower use customers would experience a decrease in their bills. The increase in bills to some customers would be offset by decreases in the bills of other customers. On average, the bill remains the same but the allocation of costs within a customer class shifts towards more costs being paid by higher use customers.

consumption. An American Gas Association study found the one-year price elasticity of demand was about -0.11 for the census region that includes Illinois. The long-term price elasticity of demand was estimated as -0.22.

The importance of these findings is that increasing the volumetric distribution charge by even 10% (the distribution charge is approximately 40%-50% of the bill) could lead to a 0.4%-0.5% short term reduction and 0.88%-1.1% long-term reduction in gas use over what it would be with the lower volumetric price¹⁹. Since altering the volumetric charge does not affect the average cost of delivery service to retail customers (it does affect the costs to individual customers but on average a customer pays the same amount), these additional savings can be achieved without increasing the budget limitations. If prices and weather are similar to what was experienced in 2009, one should expect that increasing the volumetric distribution charge by 10% would achieve a usage reduction that is about half of the May 31, 2015 goal of 0.8%²⁰.

D. Findings and Recommendations Regarding Spending Limitations
Causing an Undue Constraint on EE Procurement

The Commission expects that in the near future the gas utilities are unlikely to meet the unmodified savings requirements within the budgets provided. Increasing the budgets

¹⁹ This does not imply that the reductions would be 0.4% to 1.1% of 2009 deliveries. It only implies that the usage in year YY would be 0.4% to 1.1% lower than if volumetric distribution charges in year YY were 10% lower. Assuming supply charges in year YY are equal to supply charges in 2009, in years when weather and other factors that affect usage are similar to those in 2009, the higher distribution charge would be expected to result in savings that are 0.4% of 2009 deliveries. If weather or other factors would cause usage to be less than 2009, then the higher distribution charge would lead to less than a 0.4% reduction in 2009 deliveries.

²⁰ This savings would not be reflected in a utility's EE program as this would be naturally occurring as a result of price incentives rather than additional savings due to the utility's efforts. Nonetheless, overall savings would increase and the bill to an average retail customer would be unchanged.

would increase the savings while also increasing the bill impacts to the average retail customer. The primary cause for an inability to meet the unmodified savings requirements is that the price of natural gas dropped substantially and expected prices over the next 15 to 20 years have concurrently dropped. Rate structure changes also have the potential to reduce the effect of utility EE programs without affecting the price paid by an average retail customer for EE programs. For these reasons, the Commission, at this time, does not believe the evidence supports an increase in the average amount paid in connection for retail service for the purpose of procuring greater levels of EE. The gas EE programs are in the early stages of development. As the programs mature, evidence may present itself that would warrant a reexamination of the limitations imposed upon it by the spending caps in Subsection (d).

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

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

January 1, 2012

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

Background:

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

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

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

Coordination and Consistency of Energy Efficiency Programs:

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

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

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

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

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

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

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

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

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

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

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

Some examples of coordination that are taking place include³:

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

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

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

Challenges to Coordination:

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

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

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

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

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

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

Some examples of foreseeable differences between utilities include: (1) different metrics for evaluating vendor performance, (2) different expectations for reporting

requirements, (3) different approaches to marketing and communicating branding efforts, and (4) different approaches for handling call center assistance.

Plan:

The Commission plan is outlined below:

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

1. Continue to encourage coordination through SAG and CANDI:

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

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

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

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

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

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

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

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

Reducing or eliminating the emphasis on first-year savings potentially increases the benefits to ratepayers in several ways. First, it reduces the incentives for a utility to

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

Second, longer term savings goals are more consistent with the stated objectives of Subsection (a) of Section 8-103 to reduce or delay the need for infrastructure investment. The emphasis on first-year savings leads to an incentive to focus on measures and programs that have low costs per first year unit of energy savings as opposed to measures and programs with low lifetime per unit costs. As such, programs with one year savings such as consumer behavior modification take emphasis over programs that can save energy for 10 to 20 years or even longer. The advantage of longer term programs is that the savings persist and are more likely to reduce the need for infrastructure investments. Another example of short-term savings goals misaligning with long-term goals is the emphasis placed on lighting efficiency. Efficient light bulbs are a low cost method of achieving savings and compact fluorescent bulbs last for several years. Under the current program, these are an ideal measure for reducing

energy deliveries. However, it should be noted that investments in infrastructure are more likely to be needed to meet demands in peak periods (usually daylight hours in the summer months). Lighting measures in residential units are used primarily in the evening. Savings through such measures does little to avoid or delay the need for additional infrastructure investment.

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

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

4. Solicitation of Comments:

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

Comments on this plan are to be sent to:

David Brightwell,
Illinois Commerce Commission,
527 East Capitol Avenue,
Springfield Illinois, 62701.
dbrightw@icc.illinois.gov

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

Conclusion:

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