COMMENTS BY THE STAFF OF THE ILLINOIS COMMERCE COMMISSION ON THE ILLINOIS POWER AGENCY'S 2017 DRAFT POWER PROCUREMENT PLAN FILED AUGUST 15, 2016

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Note: In these comments, aside from adding a "Conclusion" section, Staff retains the same outline that is used in the body of the Illinois Power Agency's "2017 Electricity Procurement Plan," which was distributed on August 15, 2016 ("Draft Plan").

1 Executive Summary

On August 15, 2016, pursuant to Section 16-111.5(d) of the Illinois Public Utilities Act ("PUA"), the Illinois Power Agency ("IPA") made available to the public a "2017 Electricity Procurement Plan" ("Draft Plan") and invited affected utilities and other interested parties to submit comments on the Draft Plan by September 14, 2016. In response, the Staff of the Illinois Commerce Commission ("Staff") hereby submits these comments to the IPA. The outline of these comments conforms to the outline of the Draft Plan.

1.1 Power Procurement Strategy

1.2 Renewable Energy Resources

1.3 Incremental Energy Efficiency

Staff recommends the IPA include within its executive summary that it is requesting the Commission approve the 2016 Section 16-111.5B consensus language set forth in Section 9.3. Further, Staff recommends the IPA recommend the Commission reject the energy efficiency programs that fail the utility cost test (220 ILCS 5/16-111.5B(a)(3)(D)). Accordingly, Staff recommends the IPA adopt the following modifications to page 5 of the Draft Plan:

> This plan is the fifth year for inclusion of incremental energy efficiency programs pursuant to Section 16-111.5B of the Public Utilities Act. As with past plans, the IPA recommends inclusion of the programs submitted by the utilities that pass the Total Resource Cost and have not been determined to be duplicative of other programs. <u>This plan does not include energy efficiency programs which fail to satisfy the utility cost test. Inclusion of programs which fail the utility cost test would not result in reduction in the overall cost of electric service contrary to Section 16-111.5B(a)(3)(D).</u> Th<u>e</u>~~ose~~ programs <u>recommended for Commission approval</u> can be found in Chapter 9. <u>Finally, the IPA recommends the Commission approve and</u>

> <u>adopt the 2016 Section 16-111.5B Workshop Consensus Items as set forth in Section 9.3.</u>

1.4 The Action Plan

2 Legislative/Regulatory Requirements of the Plan

2.1 IPA Authority

2.2 Procurement Plan Development and Approval Process

2.3 Procurement Plan Requirements

2.4 Standard Product Procurement

2.5 Renewable Energy Resources

2.6 Energy Efficiency Programs or Measures

The IPA should clarify in its request pertaining to adoption of the 2016 consensus items that it is requesting such consensus language to be binding for the energy efficiency programs approved in the IPA's 2017 Procurement Plan for the planning of, implementation of, reporting on, and evaluation, measurement and verification of savings achieved by such programs. Accordingly, Staff proposes the following modifications to page 15 of the Draft Plan:

> Additionally, past years' disputes have resulted in a series of Commission-mandated workshops leading to consensus language being reached among stakeholders. Workshops held in 2016 resulting in an updating of those consensus items and the development of new consensus language around previously contested issues. Specific consensus items are included in Chapter 9 (Prior Year Consensus Items) and the IPA expressly requests that such language be approved by the Commission with the intention that it be applied prospectively, informing the requests for proposals developed by the utilities pursuant to Section 16-111.5B(a)(3) for the solicitation of programs to be included in the 2018 Procurement Plan. <u>Additionally, the IPA requests that the Commission expressly approve the consensus items to be binding upon the energy efficiency programs approved as part of the IPA's 2017 Procurement Plan for the planning of, implementation of,</u>

> reporting on, and evaluation, measurement and verification of savings achieved by such programs.

2.7 Demand Response Products

2.8 Clean Coal Portfolio Standard

2.9 2015-2016 Legislative Proposals and Related Developments

3 Load Forecasts

4 Existing Resource Portfolio and Supply Gap

4.1 Ameren Illinois Resource Portfolio

4.2 ComEd Resource Portfolio

4.3 MidAmerican Resource Portfolio

Staff recommends that for the 2017 Procurement Plan and future plans, the IPA, for purposes of developing energy hedge plans, cease the practice of capping MidAmerican's forecast of supply from its generation resources at the level of demand in each hour. On pages 49-50, the Plan states:

> In reviewing the load forecast and resource portfolio information supplied by MidAmerican for the 2017 Plan, the IPA notes that MidAmerican "dispatches" its Illinois Historical Resources whenever the expected cost to generate electricity is less than the expected cost of acquiring it in the market. The maximum generation output during each hour is then capped at the maximum of the generation capacity or the forecasted demand level, whichever is lower. The IPA invites feedback and comments from interested parties on whether it makes sense to remove this cap for the 2017 Procurement Plan. The IPA believes that removing the cap could represent a slight incremental improvement without a significant effort to implement.

Staff agrees with the IPA that "removing the cap could represent a slight incremental improvement without a significant effort to implement." In fact, Staff maintains that it ***would*** be an improvement and would entail ***no*** incremental effort to implement.

At first blush, the existing cap may have some intuitive appeal. After all, if the quantity demanded in some hour is less than the supply available, then what is the value of extra unused portion of the supply? However, MidAmerican's forecast of supply from MidAmerican-owned generation is not merely a forecast of resource availability; it is a forecast of resource dispatch. In other words, MidAmerican's forecast of the quantity demanded only represents a portion of the quantity demanded (the portion that is expected to be used by MidAmerican's retail customers). Where MidAmerican's forecast shows an excess of the quantity of supply relative to that quantity demanded, it is actually showing amounts of electricity that MidAmerican would generate and would deliver to the electric grid, to be purchased by MISO through its day-ahead and real-time energy market.

Therefore, MidAmerican's forecast of what one might call "excess supply" is no different than the forecasted excess supply associated with the fixed block energy contracts that the IPA arranges for ComEd and Ameren. If all goes according to the IPA Plan, for approximately half the hours of any contract term, the combined sum of the fixed supply quantities will exceed the quantity demanded by ComEd's and Ameren's retail customers. And yet, the IPA has never suggested that we ignore that entire half of the energy supplied through those contracts, like it has been doing with the projected MidAmerican supply. Nor should the IPA ignore that half of the supply, since those quantities are being sold into the PJM and MISO energy markets and the revenues from those sales are being used to offset costs for ComEd and Ameren's retail customers. In MidAmerican's case, those cost-offsetting sales of excess energy to MISO are expected to be even more beneficial for ratepayers, because MISO would be purchasing the excess energy at a price exceeding MidAmerican's marginal cost of production (if that were not the case, then the generators would not be dispatched).

For the reasons described above, the IPA should cease the practice of capping MidAmerican's forecast of supply from its generation resources at the level of demand in each hour. Additionally, Staff would encourage the IPA to further develop the ways it analyzes the effectiveness of hedge plans for MidAmerican. In particular, the IPA should recognize that there are differences between (A) the fixed-price fixed-quantity contracts that make up nearly 100% of the energy hedges for ComEd and Ameren and (B) MidAmerican's owned generation resources (which account for the majority of the MidAmerican energy hedge and which closely resemble options contracts in their deployment). For instance, once purchased, the ComEd and Ameren fixed-price fixed-quantity contracts are always "dispatched," regardless of how spot market prices evolve. In contrast, MidAmerican's generating resources are not always dispatched; according to MidAmerican (as well as common sense), they are only dispatched when the marginal cost of generation is less than the spot price being offered by MISO. Thus, the quantity is not fixed; it is variable, and the quantity dispatched depends on the focus of the hedge – spot prices. For future procurement plans, Staff recommends that the IPA explore the implications of this difference and, if warranted, amend its development of incremental MidAmerican hedges, accordingly.

5 MISO and PJM Resource Adequacy Outlook and Uncertainty

5.1 Resource Adequacy Projections

5.2 MISO Resource Adequacy Update

5.2.1 Refinement of the Capacity Procurement Strategy for Ameren

Following a discussion of resource adequacy within MISO, the Plan states on pages 57-58:

> Given the observations made above, the IPA anticipates that the proposed changes to the MISO capacity construct will result in a more stable capacity market in the long term if those changes are fully implemented. It is possible that the proposed changes, when implemented, will reduce capacity price volatility, and could help ensure the reliability of electric service. As a result, the IPA bilateral capacity procurement will not have any apparent advantage over the PRA. Thus, assuming MISO's proposed changes are largely adopted, the IPA recommends that procurement of capacity for Ameren Illinois should transition to 100% of its capacity procurement needs in the MISO PRA by the 2019-2020 delivery year.
>
> Although the IPA foresees potential uncertainty and associated price volatility while these changes are being implemented, this uncertainty could also be reflected in the results of IPA's bilateral procurements. Ultimately, while the MISO PRA will not perfectly resemble the PJM RPM construct in the near future, the changes that are proposed will solidify the MISO PRA as a stable auction that LSEs can depend on for their capacity procurement needs.

While these may be reasonable conjectures, they are still merely conjectures, and therefore Staff believes it is premature to be declaring obsolete the IPA's current bilateral capacity procurements. Staff recommends that the section be rewritten with a little less enthusiasm and a little more cautious optimism. One particularly unwarranted sentence should be redrafted along the following lines: "~~Ultimately, while the MISO PRA will not perfectly resemble the PJM RPM construct in the near future,~~ Hopefully, the changes that are proposed will solidify the MISO PRA as a stable auction that LSEs can depend on for their capacity procurement needs."

5.2.2 2015-2016 PRA Results Follow-Up

5.2.3 2016-2017 PRA Results

5.2.4 Zonal Deliverability Benefits Filing

5.2.5 Proposed Seasonal and Locational Changes to the MISO Resource Adequacy Construct

The following issues were identified within this section:

On page 62, the Plan uses the term, "External Zones," but nowhere defines the term or explains its significance or the significance of the MISO proposed changes associated with External Zones.

On page 62, the Plan uses the acronym, "CTR," but nowhere indicates what the acronym stands for. The Plan also may fail to define the term that CTR stands for, to explain its significance, and the significance of the MISO proposed changes associated with the term.

On page 63, the Plan uses the acronym, "LFU," but nowhere defines the term. This could be done on page 62, following the appearance of the term "Load Forecast Uncertainty."

5.2.6 Resource Adequacy in Restructured Competitive Markets

6 Managing Supply Risks

7 Resource Choices

7.1 Energy

7.1.1 Energy Procurement Strategy

7.1.2 Energy Procurement Implementation

7.2 Capacity

7.2.1 Capacity Procurement Strategy

7.2.1.1 ComEd

7.2.1.2 Ameren Illinois

On page 84, the Plan further justifies its proposed transition to 100% reliance on a reformed MISO PRA, noting that:

> The results of the IPA's September 2015 bilateral procurement for the 2016-2017 delivery year, in which the average price of ZRCs purchased was $138.12/MW-Day for that hedged capacity (as opposed to a Zone 4 clearing price of $72.00 through the PRA), demonstrates that the bilateral procurement is providing very limited (if not negative) value relative to the value which can be obtained from the PRA alone.

The IPA's observation -- that its RFP process resulted in higher prices than the subsequent MISO auction for Zonal Resource Credits ("ZRC") ZRCs – is a valid consideration (especially for determining what premiums result from the IPA's RFPs). However, in Staff's view, the "value" of the RFPs depends less on their ability to produce savings relative to the PRA than on their ability to reduce the volatility in what customers pay for resource adequacy. On the other hand, Staff admits that it knows of no evidence that the RFPs have in fact reduced the volatility in what customers pay for resource adequacy. Furthermore, Staff does not believe that the RFPs have contributed to resource adequacy, itself, given the RFPs' limited application to acquiring relatively short-run price hedges for a very small portion of the total load that is tapped into the electricity grid "commons."

Through page 85 and portions of page 86, the Plan continues justifying the proposed transition to 100% reliance on a reformed MISO PRA. Generally, Staff agrees with the IPA's analysis of and proposed reliance on the reformed MISO PRA. Staff only cautions against counting chickens before they are hatched. As already noted, Staff recommends that the IPA temper its enthusiasm for the various reforms being developed by MISO, and approach those reforms with cautious optimism.

7.2.1.3 MidAmerican

7.2.2 Capacity Procurement Implementation

7.2.2.1 Ameren

7.2.2.2 ComEd

7.2.2.3 MidAmerican

7.3 Transmission and Ancillary Services

7.4 Demand Response Products

7.5 Clean Coal

7.5.1 FutureGen 2.0

8 Renewable Resources Availability and Procurement

9 Energy Efficiency

9.1 Incremental Energy Efficiency in Previous Plans

Based upon Staff's recommendations to exclude certain programs the IPA included in the Draft Plan for the reasons detailed in later subsections of these comments, Staff proposes the following modifications to Table 9-1 on page 107 of the Draft Plan for internal consistency:

Table 9-1: Projected Savings (MWh)<u>*</u> from Section 16-111.5B Programs From Prior IPA Procurement Plans and Proposed in this Plan

Delivery Year	Ameren Illinois	ComEd
2013 – 2014 (Approved in 2013 Plan)	**70,834**	**118,515**
2014 – 2015 (Approved in 2014 Plan)	**65,680**	**430,609**
2015 – 2016	**169,442**	**830,008**
Approved in 2014 Plan	-	547,904
Approved in 2015 Plan	169,442	282,104
Moved from 8-103	*88,203*	*247,648*
Third-Party RFP	*81,239*	*34,456*
2016 – 2017	**230,228**	**984,052**
Approved in 2014 Plan	-	611,958
Approved in 2015 Plan	169,690	284,641
Moved from 8-103	*93,569*	*241,541*
Third-Party RFP	*76,121*	*43,100*
Approved in the 2016 Plan	60,538	87,453
2017 – 2018 (Proposed in this Plan)	**<u>149,258</u>~~190,172~~**	**<u>877,805</u>~~887,268~~**
2018 – 2019 (Proposed in this Plan)	**<u>158,190</u>~~209,102~~**	**<u>630,448</u>~~641,473~~**
2019 – 2020 (Proposed in this Plan)	**<u>164,196</u>~~220,936~~**	**<u>644,110</u>~~655,646~~**

<u>*</u> The total expected reductions listed above are the totals for the programs<u>, as proposed,</u> available to all <u>potentially</u> eligible retail customers.[1] Please note, however, that the actual impact on IPA energy procurement each year is prorated to the portion of those customers who are <u>actually</u> eligible retail customers (i.e., take supply service from ComEd or Ameren Illinois). See Sections 3.2.3 and 3.3.3 for a discussion of what portion of potentially eligible retail customers are forecast to actually be eligible retail customers.<u> Additionally, the Projected Savings assume the programs will each achieve their full proposed savings. Historically, approved programs have not always produced their savings as proposed. For example, some approved or conditionally approved programs have not been implemented. See e.g., Notice of Termination of Programs filed 8/12/16 by Ameren Illinois in ICC Docket No. 15-0541 and Notice Regarding Change in Third Party Energy Efficiency Program Vendor Status filed 2/25/14 by ComEd in ICC Docket No. 13-0546.</u>

[1] While the IPA generally procures only for the "eligible retail customers" of participating utilities, Section 16-111.5B programs are available to "all retail customers whose electric service has not been declared competitive under Section 16-113 of this Act and who are eligible to purchase power and energy from the utility under fixed-price bundled service tariffs, regardless of whether such customers actually do purchase such power and energy from the utility." (220 ILCS 5/16-111.5B(a)(3)(C))

9.2 2016 Section 16-111.5B SAG Workshop Subcommittee

Non-Scalable Non-Program-Specific Section 16-111.5B Cost Reporting

Staff agrees with the IPA's conclusion that the 2016 Section 16-111.5B Stakeholder Advisory Group ("SAG") subcommittee workshop process was a laudable success. (Draft Plan, 109.) Nevertheless, Staff does not agree that it is unnecessary for the Commission to resolve any of the issues that parties were unable to resolve through the 2016 Section 16-111.5B SAG subcommittee workshop process. In particular, the Commission should address whether Ameren Illinois and ComEd should report expected Section 16-111.5B administrative costs for the next year to the IPA. Furthermore, the IPA should, based upon this information, report total expected procurement costs in its Procurement Plan filings.

In contrast to Staff's position, some parties have taken the position that other administrative costs beyond those impacting the TRC analysis of individual programs are already reported to the Commission in reconciliation filings, and submittal to the IPA of this additional information is neither necessary nor required by the governing law. (Draft Plan, Appendix H, 25.) Staff disagrees.

As an initial matter, when making program-by-program decisions, Staff supports an incremental evaluation of cost-effectiveness. That is, whether an additional program is approved should depend upon the expected program-specific incremental benefits exceeding its expected program-specific incremental costs. In making individual program decisions, such an approach does not and should not directly consider non-scalable non-program-specific Section 16-111.5B costs. If the incremental benefits from the program exceed any additional incremental costs from the program, then the program will increase net benefits produced by Section 16-111.5B programs in total.

On the other hand, the IPA or the Commission cannot determine the impact of the Section 16-111.5B portfolio on consumer bills without consideration of non-scalable non-program-specific Section 16-111.5B costs. A transparent and capable of being audited Procurement Plan must include reporting of the full expected cost of implementing Section 16-111.5B. For these reasons, the utilities should report estimates of all Section 16-111.5B costs, including non-scalable non-program-specific Section 16-111.5B costs, to the IPA. The IPA should further include overall Section 16-111.5B costs explicitly in its Procurement Plan.

As a practical matter, it is not entirely clear whether utilities have reported all Section 16-111.5B costs. Ameren Illinois indicates that it excluded fixed or non-scalable costs when performing cost benefit tests, but does provide a percentage estimate of 1.55% for non-scalable costs. (Draft Plan, Appendix B, Ameren Illinois Electric Energy Efficiency Submission in Accordance with 220 ILCS 5/16-111.5B, 6-7; Draft Plan, 117, footnote 246.) Staff recommends that the IPA determine the actual dollar value of these estimated non-scalable costs and include estimates of all of Ameren Illinois Section 16-111.5B costs in its Procurement Plan filing with the Commission. It is not evident from either the Draft Plan or the attached appendices the extent to which ComEd did or did not include any non-scalable non-program-specific Section 16-111.5B costs in its submission to the IPA. Staff recommends the IPA seek and obtain from ComEd any non-scalable non-program-specific Section 16-111.5B costs and include estimates of all of ComEd Section 16-111.5B costs in its Procurement Plan filing with the Commission.

In making these recommendations, it is Staff's view that whether or not the utilities include realized non-scalable non-program-specific Section 16-111.5B costs at some later date, in reconciliation dockets, annual reports, or elsewhere, has no bearing on whether the costs should be reported as part of the procurement planning and approval process. Making these estimates available during the procurement planning and approval process rather than later provides to the IPA, the Commission, and the public with an estimate of total projected utility energy efficiency spending – information that should be available in order to make statutorily-required energy efficiency procurement plans transparent and auditable.

Accordingly, Staff proposes the following modifications to page 109 of the Draft Plan:

> The IPA believes that significant and meaningful progress was made in the consideration of all five issues outlined above, and the Agency thanks the SAG facilitation team and workshop participants for genuine, committed efforts toward consensus resolution of complex challenges. ~~While t~~The fourth and fifth issues resulted in ~~minor~~ unresolved differences between parties, which are set forth in Appendix H. ~~— an expected result when parties are working in good faith toward solutions but have different perspectives, different experiences, and are accountable to different constituencies — none were so significant that t~~The IPA believes further clarification from the Commission concerning these remaining unresolved issues would be helpful, as the IPA believes these remaining unresolved issues have undergone sufficient debate and discussion through the SAG workshop process, and that further discussions through SAG will not likely result in consensus resolution. Thus, a Commission decision clarifying these issues is warranted for resolution~~is absolutely necessary for approval of the 2017 Plan~~.[241] Given that the majority of contested issues from the 2016 Plan approval litigation concerned issues arising under Section 16-111.5B, the IPA believes this demonstrates that the 2016 Section 16-111.5B subcommittee workshop process was a laudable success.

The Plan should also be amended to add two new rows to each of Tables 9-3 and 9-5: (1) one which includes a sum of net savings across all programs and a sum of utility costs across all programs inclusive of all non-program-specific Section 16-111.5B costs; and (2) one which includes the utility's estimated non-scalable non-program-specific Section 16-111.5B costs.

9.3 2016 Workshop Consensus Items

Staff supports the IPA's inclusion within the Draft Plan of specific consensus language agreed to by participants in the 2016 Section 16-111.5B SAG Workshops. (Draft Plan, 108-113.) Inclusion of this language will minimize confusion as to the specific language recommended for adoption.

While the IPA has included consensus language from Attachment A to the 2016 SAG Report set forth in Appendix H to the Draft Plan, there is additional consensus language in the 2016 SAG Report that is not found in Attachment A to the 2016 SAG Report and that IPA did not include in its Draft Plan. In particular, the 2016 SAG Report includes detailed language specifying agreement regarding how Ameren and ComEd shall track and report their costs. This consensus language was developed in response to the Commission's directive from the last IPA Procurement Plan docket:

> It seems that even after the Commission ordered the utilities to track their administrative costs in Docket No. 14-0588, the utilities are not clear as to what administrative costs should be tracked, and, as ComEd has noted, it is unclear what Staff proposes with respect to additional reporting and whether it is needed. These topics should be thoroughly addressed and determined with specificity in workshops conducted by the SAG.

<u>Illinois Power Agency</u>, ICC Final Order Docket No. 15-0541, 95 (Dec. 16, 2015). Staff recommends the IPA include the consensus language in relation to "Cost Tracking and Reporting" at pages 11-12 of the 2016 SAG Report within its 2017 Procurement Plan and

request the Commission adopt it. Commission adoption of the consensus language related to “Cost Tracking and Reporting” will help ensure consistency and clarity in the utilities’ reporting of Section 16-111.5B administrative costs and it will aid the IPA, the Commission, and other interested parties in their review of proposed administrative cost adders in future procurement plan proceedings.

Additionally, the IPA should clarify in its request that the consensus language it seeks approval for should be binding for the energy efficiency programs approved in the IPA’s 2017 Procurement Plan for the planning of, implementation of, reporting on, and evaluation, measurement and verification of savings achieved by such programs.

Accordingly, Staff recommends the following modifications to page 110 of the Draft Plan:

> Included below are the specific consensus items agreed to by participants to the 2016 Section 16-111.5B Workshops. These items are intended to update—and thus replace~~displace—~~ consensus items previously approved by the Commission, including through approval of the 2016 Plan. As in the past, the IPA requests that the Commission expressly approve the consensus items to be binding upon the energy efficiency programs approved as part of the IPA’s 2017 Procurement Plan for the planning of, implementation of, reporting on, and evaluation, measurement and verification of savings achieved by such programs, as well as binding upon parties up to the development of the IPA’s 2018 Procurement Plan (at which time any changes to the list below may be considered).

Staff further recommends that the following consensus language found under the title “Cost Tracking and Reporting” at pages 11-12 of the 2016 SAG Report be included within the IPA’s 2017 Procurement Plan on page 110:

> Cost Tracking and Reporting
>
> Ameren Illinois and ComEd shall track the costs described below, and assign costs to either Section 16-111.5B or Section 8-103 energy efficiency

programs. However, stakeholders may not see the allocation of costs between Section 16-111.5B and Section 8-103 programs during the applicable reconciliation docket with the Commission. Instead, ComEd and Ameren Illinois will provide allocated costs between Section 8-103, 8-104 and 16-111.5B programs in the Program Administrator Annual Report[2] to SAG as described below.

Section 16-111.5B Costs incurred by the Program Administrator: Costs incurred due to Section 16-111.5B statutory requirements.

Program-Specific Section 16-111.5B Costs: Costs incurred due to specific Section 16-111.5B program(s). *Program-Specific Section 16-111.5B Costs* should be reported in the cost categories set forth below, which includes the following Policy Manual Version 1.0 cost categories:

• Evaluation (3%);[3]

• Administration;[4] and

• Marketing (including education and outreach).[5]

• *Non-Administrative Program-Specific Section 16-111.5B Costs* are defined as costs incurred due to Section 16-111.5B program(s) that do not otherwise fall under the Policy Manual Version 1.0 cost categories of

[2] Program Administrator Annual Report refers to the report referenced in Subsection 6.6 Program Administrator Annual Summary of Activities (Annual Report) of the Policy Manual Version 1.0, ICC Final Order Docket No. 15-0487 Appendix at 19-20.

[3] Evaluation Cost means "any costs incurred in the scope of work for Evaluators hired pursuant to Section 8-103(f)(7) and 8-104(f)(8) of the Act, including no more than three percent (3%) of Portfolio resources (approved Plan budgets)." See Policy Manual Version 1.0, Section 5.2, Portfolio Cost Categories at 15.

[4] Id. Portfolio Administrative Cost means "a cost that may be incurred by a Program Administrator, contractor, or subcontractor that is not easily attributable to a specific Program or other cost categories, but benefits all functions of the Energy Efficiency Portfolio. Examples of Portfolio Administrative Costs include, but are not limited to, the following: a. Managerial and clerical labor; b. Human resources support, training and employee development; c. Travel and conference fees; d. Overhead (general and administrative, e.g., accounting, facilities management, procurement, administrative, communications, information technology and systems, telecommunications, data tracking etc.); e. Equipment (e.g., communications, computing, copying, general office, transportation, etc.); f. Office supplies and postage; g. Potential studies and market assessments; h. Portfolio Plan development; i. Litigation and cost recovery; and j. Legal and regulatory support and expenses.

[5] Id. Marketing Cost means the costs of marketing and outreach, which has a purpose of acquiring Program participation or consumer understanding of Section 8-103 and 8-104 Programs. It includes, but is not limited to, the costs for: a. Full-service marketing services, concepts and campaign strategy planning, including labor; b. Developing a marketing plan, timeline, budget and progress reports; c. Coordination and implementation of all marketing activities, including scheduling events, media buys, etc.; d. Promotional materials, including, general awareness and events; e. Website; f. Training of Trade Allies and Trade Ally expo events; g. Public relations, including community outreach; and h. General marketing primarily designed to increase other overall Program participation rather than claiming direct savings (e.g., an online audit tool or community challenge).

Evaluation, Administration, and Marketing as specified above. *Non-Administrative Program-Specific Section 16-111.5B Costs* should be reported in the following Policy Manual Version 1.0 Program Cost Categories: Incentives and Non-Incentive Costs.[6]

Non-Program-Specific Section 16-111.5B Costs: Costs incurred due to Section 16-111.5B that are not program-specific, reported in the following Policy Manual cost categories:

• Evaluation (3%);

• Administration; and

• Marketing (including education and outreach).

General Administrative Scalable Costs are defined as costs incurred due to Section 16-111.5B that are not program-specific and that increase as the budget of approved programs increases (i.e., linearly scalable with the budget of approved programs). Within the category *Non-Program-Specific Section 16-111.5B Costs*, costs can be scalable or non-scalable. "Scalable costs" are costs that are linearly scalable with the budget of approved programs. "Non-scalable costs" are costs that are largely fixed. Ameren Illinois and ComEd shall categorize all *Non-Program-Specific Section 16-111.5B Costs* in one of two categories: scalable or non-scalable. Upon request, ComEd and Ameren Illinois shall identify which costs it has included in the "Non-Program-Specific" cost categories and whether the costs are considered scalable or non-scalable, as well as provide a rationale for the categorization.

9.4 Policy Issues for Consideration in the 2017 Plan

9.4.1 Scale of Section 16-111.5B programs

9.4.2 Improving/Refining Bids

Staff proposes inserting the word "been" in the first paragraph of Section 9.4.2 on page 114 of the Draft Plan, as follows:

[6] See Policy Manual Version 1.0, Section 5.3, Program Cost Categories for Section 8-103 and 8-104 Programs at 16.

> There are several potential refinements to the RFP process that could improve the bids received. Concerns have been raised that the nature of the Section 16-111.5B RFP process could allow bidders to propose programs with excessive administration costs by finding headroom in the TRC analysis. Likewise, another concern that has been expressed is a desire for more post-bid negotiations between the utilities and bidders in order to refine/improve the scope, scale, price, etc. of bids. Both concepts suggest that there could be potential to move away from a process where only minor adjustments are made to bids (e.g., adjusting incorrect savings levels provided by bidders) to a model where active negotiations are undertaken in order to improve the quality and value to ratepayers of the proposed programs. While the IPA appreciates the limited time available to utilities to undertake such negotiations and still provide an assessment of the bids to the IPA by July 15 of each year, the IPA believes that more examination of this issue is warranted.

9.4.3 Other Considerations

9.5 Ameren Illinois

9.5.1 Ameren Illinois Bids Received

9.5.2 Ameren Illinois Bid Review Process

9.5.3 Review of Ameren Illinois TRC Analysis

In relation to adjusting certain net-to-gross ("NTG") ratio values provided by the bidders, the Draft Plan states:

> Ameren Illinois (through its consultant AEG) adjusted certain net-to-gross ratios provided by bidders to more accurately reflect values in the Illinois TRM. While one such instance resulted in a disagreement by the bidder (which again sought to apply values derived from another state's TRM), those adjustments appear to be reasonable to the IPA.

(Draft Plan, 117.) Staff agrees with the IPA that the NTG adjustments are reasonable. That being said, in finding reasonable certain adjustments Ameren Illinois (through its consultant AEG) made to the NTG ratio values provided by the bidders, page 117 of the

Draft Plan provides an incorrect summary of the rationale for the NTG adjustment as well as an incorrect summary in relation to the specific disagreement from the bidder.

First, with respect to the rationale for Ameren Illinois' adjustment of NTG values, the NTG values were adjusted not to be consistent with the IL-TRM, but instead to reflect the NTG ratios recommended by Ameren's independent evaluator. (Draft Plan, Appendix B, Ameren Illinois Electric Energy Efficiency Submission in Accordance with 220 ILCS 5/16-111.5B, 8.)

Second, the instance of disagreement by the bidder relates to the gross energy savings values, not adjustment of the NTG values.

Accordingly, for the sake of accuracy, page 117 of the Draft Plan should be modified as follows:

> Ameren Illinois (through its consultant AEG) adjusted the gross energy savings values for certain efficiency measures~~net-to-gross ratios~~ provided by bidders to more accurately reflect values in the Illinois TRM. While one such instance resulted in a disagreement by the bidder (which again sought to apply values derived from another state's TRM), those adjustments appear to be reasonable to the IPA. Ameren Illinois (through its consultant AEG) also adjusted certain net-to-gross ratios provided by bidders to reflect the NTG ratios recommended by Ameren Illinois' independent evaluator. Those adjustments appear to be reasonable to the IPA.

9.5.4 Programs Deemed "Not Responsive to the RFP" by Ameren Illinois

9.5.4.1 Policy Implications

As an initial matter, Staff proposes the IPA correct a typographical error on page 118 of the Draft Plan. In particular, the Draft Plan refers to Section 8-014 when it should refer to Section 8-104. In particular, the first full sentence within subsection 9.5.4.1 of the Draft Plan should be amended as follows: "The Agency understands Ameren Illinois' concern that the IPA procurement plan process could include the approval of energy efficiency programs that might otherwise be funded by gas ratepayers (for instance, pursuant to Section 8-<u>104</u>~~014~~ of the PUA) rather than a potentially distinct universe of electric ratepayers taking electric distribution service from Ameren Illinois."

Beyond correction of this typographical error, Staff shares the concern (attributed to Ameren Illinois) with programs that are not primarily focused on electric savings. (Draft Plan, 118.) The IPA should procure measures that are predominately justified based upon how the measures save electricity, reduce the overall costs of electric service, and compare to the prevailing cost of comparable supply. These are considerations specifically identified in Section 16-111.5B. The IPA is correct that natural gas savings "must be taken into account in assessing the cost-effectiveness of proposed programs." (Draft Plan, 119.) Staff, however, agrees with the approach specified in Ameren Illinois' RFP that incidental gas savings should be considered when an electric program design captures incidental gas savings through multi-fuel measures. (Draft Plan, 118.)

Staff commends the IPA for seeking and Ameren Illinois for producing additional information with respect to the two programs that Ameren Illinois identifies as overly reliant on gas savings. This additional information regarding the net electric benefits of these programs provides additional context with respect to the role of gas savings for these programs. This additional information, as well as other available and relevant information, should inform the decision as to whether these two programs should be included within the IPA's Procurement Plan.

9.5.4.1 Demand Based Ventilation Control Program

With respect to the Demand Based Ventilation Control Program, the supplemental information included by the IPA suggests that the program is cost-effective, with an electric-only TRC ratio above 1.0, when gas savings are not included. At first blush, it may appear that this program is justified based solely upon its electric savings potential. Staff does not, however, recommend relying upon the IPA's reported TRC ratio for the Demand Based Ventilation Control Program and simply approving the program without a closer review. This proposed program should not be approved without considering: (1) the Utility Cost Test ("UCT") results (220 ILCS 5/16-111.5B(a)(3)(D)), (2) the cost of supply results (220 ILCS 5/16-111.5B(a)(3)(E)), (3) a TRC estimate that takes into consideration past vendor performance and savings that are realistically achievable, (4) a qualitative assessment for the Demand Based Ventilation Control Program, and (5) an assessment of the seven factors to test for the duplicative nature of this program compared with the programs included in Ameren's filed Plan 4 in ICC Docket No. 16-0413. Should the IPA continue to advocate for inclusion of the Demand Based Ventilation Control Program, Staff would urge the IPA to include an analysis of these five provisions in its Plan for this program so that the Commission will have the information it needs to make the best decision concerning this program.

While all of these factors should be considered, Staff recommends, based upon currently available information, that the IPA exclude the Demand Based Ventilation Control Program from its Plan. First, Staff notes that Ameren has included Demand Controlled Ventilation measures in the Small Business Direct Install Program proposed in its Plan 4 filed in ICC Docket No. 16-0413, which raises a concern that the Demand

Based Ventilation Control Program may be duplicative of Ameren's proposed Section 8-103 and 8-104 Small Business Direct Install Program. (*See* ICC Docket No. 16-0413, Ameren Ex. 1.1, Appendix A, 38.) Furthermore, the Demand Based Ventilation Control Program is being proposed by a vendor who has failed to perform in Illinois. (*See* ComEd PY8 Quarter 3 Report,[7] 5, 19.) The positive TRC results for this program are therefore based upon projected performance levels that are inconsistent with the vendor's past performance. As a result and without having convincing information to lead to belief of significant improvements, they should not be the basis for acceptance of this program. In addition, elsewhere in the Draft Plan, the IPA appropriately takes into consideration a vendor's past performance or lack thereof in supporting rejection of programs proposed by a vendor with poor past performance. (*See* Draft Plan, 122, 127-128.) To maintain internal consistency within the Plan, the Plan should exclude the Demand Based Ventilation Control Program proposed by a vendor who has failed to perform in Illinois. For these reasons, and consistent with Ameren's recommendations set forth in its submittal, the IPA should reject the Demand Based Ventilation Control Program. (*See* Draft Plan, Appendix B, Ameren Illinois Electric Energy Efficiency Submission in Accordance with 220 ILCS 5/16-111.5B, 16.)

Accordingly, Staff proposes the following modifications to page 119 of the Draft Plan:

> ~~9.5.4.2 Demand Based Ventilation Control Program~~
>
> ~~One of the programs Ameren Illinois considered to be inconsistent with its RFP is a demand control ventilation program which contains two measures—one for HVAC supply fans, and one for kitchen ventilation. The~~

[7] http://ilsagfiles.org/SAG_files/Quarterly_Reports/ComEd/EPY8/ComEd_PY8_Q3_Report.pdf

> ~~former reduces both gas and electric usage, while the latter only reduces electric usage. Overall, when normalized on a BTU basis, approximately two thirds of the energy reductions come from decreased gas usage—which exceeded the level that Ameren Illinois considered acceptable and was presented as their basis for not evaluating this program. However, examining savings by dollars saved rather than BTUs shows that two thirds of the financial savings resulted from reduced electric costs.~~
>
> ~~By considering the program non-responsive, Ameren Illinois did not initially provide a TRC result for the program, and the IPA requested that Ameren Illinois conduct that analysis using the gas savings. The TRC results subsequently provided by Ameren Illinois indicated that the TRC for the program was 1.98. Ameren Illinois also provided an "electric only" TRC result, in which no gas savings were included; the result of that "electric only" TRC was 1.34. The IPA believes that Ameren Illinois erred in excluding this program from its evaluation and includes it in the list of programs that are recommended for approval by the Commission.~~~~[256]~~

The Plan should also be amended to remove the Demand Based Ventilation Control Program from the table on page 124 of the Draft Plan by deleting the last row from Table 9-3. The savings associated with the Demand Based Ventilation Control Program should also be deducted from the total savings outlined for Ameren Illinois in Table 9-1 on page 107 of the Draft Plan.

9.5.4.2 Behavioral Program

The Home Energy Report "Behavioral Program" should not be accepted as bid. This proposed program consists of two parts, a "Continuation Program" targeted to dual-fuel homes and an "Expansion Program" offered to electric only households (which can vary in number based upon which of several expansion program options offered by the vendor is considered). In this instance, the supplemental information presented by the IPA reveals that, standing alone, the Expansion Program passes both the TRC and Cost of Supply tests. However, the Continuation Program is marginally cost-effective only when gas savings are included (with a TRC ratio of 1.07). (Draft Plan, 120.) When gas savings are excluded, the program is not cost-effective, with a TRC ratio of 0.87. (Draft Plan, 120.) The Continuation Program also, standing alone, fails the Cost of Supply test. (Draft Plan, 120.) In fact, when the Continuation Program is included with the Expansion Program in a bundle, the bundle fails the Cost of Supply test. In Staff's view the Continuation Program is not justified based solely upon its electric savings and net benefits. In contrast, the Expansion Program standing alone is fully justified based upon passing both the TRC and Cost of Supply tests. Despite this, Staff does not recommend inclusion of the proposed bundle of the two parts of the program.

One part of this program, the Expansion Program, meets the criteria of the PUA and one part of this program, the Continuation Program, does not. The part that does not meet the criteria negatively influences the overall ability of the package to meet statutory goals by making the combined programs fail the Cost of Supply test and reducing the margin by which the programs pass the TRC test. This type of bundled bidding should be discouraged. Bidders should be discouraged from adding programs that are not cost-effective to those that are. While such an approach may increase the funds awarded to the bidder and marginally increase savings, it ultimately delivers fewer net benefits to, and increases the cost of supply for, electric customers.

As an alternative to outright rejection of the program, the IPA could consider including only the Expansion Program portion of this proposed program with its 2017 Procurement Plan. Under this scenario, Staff would recommend the IPA include in its Plan the Expansion Program that is projected to produce the greatest level of TRC net benefits. This option would presumably require Ameren to negotiate with the vendor for inclusion of an Expansion Program that is cost-effective and provides net benefits. As with all other approved Section 16-111.5B programs, should the vendor not be interested in implementing the cost-effective Expansion Program only, it would be free to choose to do so after Commission approval.

In making its determination regarding this behavioral program, the IPA should be cognizant of the high level of persistence of savings associated with this behavior program. In particular, customers that participated in the program in the previous year (as part of Ameren Illinois' Section 8-103 portfolio), are expected to continue to save at high levels in the next year if they do not participate again. For example, such past customers, who have been in Ameren's behavioral program for many years, may save 95% or more of what they can be expected to save under the Continuation Program, even if the Continuation Program is not included in the Procurement Plan. (*See* IL-TRMv5.0 Vol. 4,[8] 16.) In other words, excluding the Continuation Program from the Procurement Plan is not expected to result in a sharp decline in savings from the customers in the Continuation Program. Ratepayers should not be forced to pay for such minimal incremental savings by funding this cost-ineffective portion of the bundled program.

Finally, the IPA should be aware that the IL-TRM Version 4.0 does not contain a behavior measure. The IL-TRM Version 5.0 is the first year that a behavior measure was included in the IL-TRM. (*See* IL-TRMv5.0 Vol. 4, 6-16.) Thus, the IPA should delete all references to IL-TRM Version 4.0 in relation to the behavioral program.

[8]https://www.icc.illinois.gov/downloads/public/IL-TRM_Effective_060116_v5.0_Vol_4_X-Cutting_Measures_and_Attach._021116_Final.pdf

Accordingly, Staff proposes the following modifications to Section 9.5.4.3 of the Draft Plan:

~~9.5.4.2 Behavioral Program~~

~~The other program which Ameren Illinois considered to be inconsistent with its RFP was for a behavioral program that would be a continuation of an existing program. This bid also contained proposals to expand at various levels into all-electric households above and beyond continuing the current offering to dual-fuel households. When normalized on a BTU basis, half of the energy savings came from reductions in gas usage, but when the savings were considered in dollar terms rather than BTU terms, the large majority of the savings were on the electric side.~~

~~While considering this program "Not Responsive," Ameren Illinois still conducted a TRC analysis of this program using both methodologies from the currently in effect (5.0) and the previous (4.0) versions of the Illinois TRM but excluding the gas savings. The analysis was only of the core continuation program (and not the expansion into all-electric homes) and the program narrowly failed the TRC under both methodologies.~~

~~The IPA requested additional analysis to include gas savings as well as the expansion to all-electric homes. Table 9-2 summarizes various TRC analyses conducted for this program. While Ameren Illinois provided the TRC analysis of the expansions as standalone programs, the bid itself references its proposals as having each expansion bundled with the core program,[9] and thus the IPA believes they must be evaluated as bundled programs. These results reflect that bundling.[10] It is the opinion of the IPA that the first row of this Table is the appropriate one for use in consideration of this program because it incorporates the methodology contained in the TRM that is currently in effect (TRM Ver. 5.0), as well as the gas savings required for cost-effectiveness determinations under the law.~~

~~Table 9-2: Behavioral Program TRC Sensitivity Analysis~~

~~Analysis~~	~~Continuation of 250,000 Homes~~	~~Continuation + Expand to 50,000 All Electric Homes~~	~~Continuation + Expand to 100,000 All Electric Homes~~	~~Continuation + Expand to 125,000 All Electric Homes~~
~~TRM 5.0~~	~~1.07~~	~~1.26~~	~~1.16~~	~~1.17~~

[9] ~~Specifically, the bidder stated in its bid that the expansion options "all assume that this existing program continues concurrently."~~

[10] ~~As standalone programs modeled using the TRM 5.0 methodology, TRC results would be 2.05 for the 50,000 household expansion, 1.34 for the 100,000 household expansion, and 1.33 for the 125,000 household expansion. Since these are all-electric homes, gas savings do not impact the analysis.~~

~~TRM 5.0 Electric Only~~	~~0.87~~	~~1.10~~	~~1.02~~	~~1.05~~
~~TRM 4.0~~	~~1.19~~	~~1.16~~	~~1.02~~	~~0.97~~
~~TRM 4.0 Electric Only~~	~~0.93~~	~~0.95~~	~~0.84~~	~~0.80~~

> ~~Even excluding gas savings, the TRC results of the bundled programs using the current TRM are all above 1.0. In addition, while the IPA does not consider the Cost of Supply test as a criterion for excluding programs from the Plan, the expansion programs when modeled as stand-alone programs pass that test (although the core program, or the core program plus any of the expansions, do not).~~
>
> ~~Based on this analysis and Section 16-111.5B's directive that the IPA "shall include . . . energy efficiency programs and measures it determines are cost-effective" in its Plan,[11] the IPA recommends including the behavioral program continuation with expansion into all-electric homes. This raises the question of what level of expansion should be adopted: while TRC results are higher for the smaller expansion, all expansions pass the TRC. In the IPA's view, including the largest cost-effective expansion proposed by the bidder appears most consistent with Section 16-111.5B's requirement to "fully capture the potential for all achievable cost-effective savings, to the extent practicable,"[12] and the Agency thus includes that program. The IPA further notes that all-electric homes inherently have higher electric bills than other homes, so it makes sense to maximize participation of those homes in an energy efficiency program.~~

The Plan should also be amended to remove the Behavioral Program from the Table 9-3 on page 124 of the Draft Plan. The savings associated with the Behavioral Program should also be deducted from the total savings outlined for Ameren Illinois in Table 9-1 on page 107 of the Draft Plan.

9.5.5 Duplicative Programs

AIC has determined that the Small Business Direct Install Program is duplicative of its proposed Section 8-103 Small Business program proposed in its Plan 4 filed in ICC

[11] ~~220 ILCS 5/16-111.5B(a)(4).~~

[12] ~~220 ILCS 5/16-111.5B(a)(5).~~

Docket No. 16-0413. AIC states the "program is of the same size, scope, targets the same market, and includes the same measures as the Plan 4 program. This has a direct negative impact on the Plan 4 program being able to effectively implement the Small Business Direct Install program." (ICC Docket No. 16-0413, Ameren Ex. 2.0, 16.) AIC argues the Small Business program should be approved under Section 8-103 rather than Section 16-111.5B due to flexibility allowed under Section 8-103. Id. The IPA should update its discussion of duplicative programs to reflect consideration of the programs included in Ameren's filed Plan 4.

Should the IPA disagree with Ameren's proposed duplicative determination, the IPA could recommend the Commission approve the Small Business Direct Install Program as an expansion of Ameren's proposed Section 8-103 Small Business Program. Should the vendor be uninterested in implementing an expansion of Ameren's proposed Section 8-103 Small Business Program, it would be free to choose to do so after Commission approval.

Accordingly, Staff proposes the following modifications to pages 121-122 of the Draft Plan, which assume the IPA agrees with Ameren's duplicative determination:

> ~~Because Section 8-103 programs had not yet been approved (or even formally proposed) at the time Ameren Illinois provided its submittal to the IPA, no proposed Section 16-111.5B program can be considered "duplicative" of any existing Section 8-103 program. However, as previously explored by the Commission in Docket No. 14-0588, two proposed Section 16-111.5B programs may indeed be "duplicative" of one another based on application of the criteria above, thus forcing a clear choice between overlapping programs or some other corrective action intended to safeguard against the erosion of customer value.~~
>
> For this year's Plan, the issue of duplicative programs arises when considering small business bids received in response to this year's RFP. Of the eight small business programs that passed the TRC, six of the programs

had varying degrees of overlap in their offerings. Two other programs (Savings Through Efficient Products and New Construction) were determined by Ameren Illinois to be compatible with all other programs.

For the six programs that did have varying degrees of overlap, Ameren Illinois assessed the programs' scope and prior experience with the vendors to recommend that one of the programs (Small Business Whole Building) not be included. The remaining five bids (Small Business Direct Install, Private HVAC, Public HVAC, Exterior Lighting, and Lit Signage) were deemed sufficiently distinct such that they do not create issues of duplication with each other. The Small Business Whole Building program overlaps all of these other programs, and in Ameren Illinois' assessment, including it along with the other programs would violate the duplicative test. In addition, Ameren claims that the Small Business Direct Install program is duplicative of its proposed Plan 4 Small Business Direct Install program filed in ICC Docket No. 16-0413 based on four of the seven factors used to assess whether a program is duplicative. According to Ameren, these four factors include:

"1. Similarity in product/service offered: The Franklin program offers measures that address lighting, water heating, and miscellaneous end uses, with lighting accounting for over 99% of the program savings. The Plan 4 program offers measures that address lighting, HVAC, water heating, and miscellaneous end uses, with lighting accounting for over 91% of the program savings. Focusing specifically on the lighting end use due to the large contribution it makes to each program, there is heavy measure overlap where LED lamps, linear LEDs, permanent fixture removal (delamping), lighting controls, light sensors, LED fixtures, and exit signs are offered in both programs.

2. Market segment targeted, including geographic, economic, and customer classes targeted: both programs focus specifically on business customers with electric demand less than 150 kW (DS2 customers) in the Ameren Illinois service territory. Small-Business customers including commercial restaurants, grocery, service, convenience stores, small healthcare, private schools, banks, motels, and small industrial.

3. Program delivery approach: both programs rely on the same delivery strategy that utilizes a network of registered and trained program allies that recruit customers, perform assessments, and directly install pre-approved measures with instant program discounts/rebates for customers.

4. Impact on Section 8-103 EEPS or the Department of Commerce and Economic Opportunity ("the Department") portfolio performance: the

Franklin program is of the same size, scope, targets the same market, and includes the same measures as the Plan 4 program. This has a direct negative impact on the Plan 4 program being able to effectively implement the Small Business Direct Install program."

(ICC Docket No. 16-0413, Ameren Ex. 2.0, p. 15-16) After removing the duplicative programs discussed above, six cost-effective small business program bids remain and are included in the IPA's procurement plan, namely: Private HVAC, Public HVAC, Exterior Lighting, Lit Signage, Savings Through Efficient Products, and New Construction.

~~The IPA observes that an alternative approach could be to approve the Small Business Whole Building program, but not the other programs. This approach would have the added benefit of including measures to address refrigeration—something not included in the other bids. However, the IPA understands that Ameren Illinois intends to include refrigeration measures in its Section 8-103 portfolio (which, if approved by the Commission, would mitigate this concern).~~

~~One perhaps important aspect of Ameren Illinois' proposal is its past experience with these bidders and the lower success rates of other programs from the bidder that offered the Small Business Whole Building program. As discussed further above and also in considering programs proposed by ComEd below, there may be valid reasons to take poor past program performance into account in evaluating proposals—and especially overlapping proposals for which some choice must be made.~~

~~While the IPA believes either approach would be workable, given that a decision between the two approaches must be made, the~~The IPA believes Ameren Illinois' assessment of vendor performance offers value. ~~in making this determination and~~ The IPA adopts Ameren Illinois' recommendation to exclude the "duplicative" Small Business Whole Building and Small Business Direct Install programs. ~~The IPA welcomes comments and feedback from interested parties on this determination in this draft Plan.~~

9.5.6 Additional Conditions Requested by Ameren Illinois

9.5.7 Ameren Illinois Programs Recommended for Approval

Based upon Staff's recommendations to exclude certain programs the IPA included in the Draft Plan for the reasons set forth above, Staff recommends the following modifications to page 124 of the Draft Plan:

> ~~Ameren Illinois' submittal includes identification of 10 energy efficiency offerings for this Procurement Plan with a TRC of above 1.0, which were not determined to be "duplicative," and which met the requirements of Ameren Illinois.[13] In reviewing the bids received by Ameren Illinois, the IPA determined that two additional programs should have been included, bringing the total of programs included in this Plan to 12.~~ The IPA recommends the Commission approve the nine cost-effective~~se~~ programs ~~are~~ exhibited in Table 9-3. Each of these nine programs pass the TRC test, the Utility Cost Test ("UCT"), Ameren's Cost of Supply test, and the duplicative test.

[13] ~~Ameren Illinois also provided the results of the Utility Cost Test ("UCT") and all the proposed programs passed the UCT. The IPA considers that informational only and has not used the UCT test in its consideration of programs to include in this Plan.~~

Table 9-3: Ameren Illinois Energy Efficiency Offerings

Program	2017 -2018		2018 – 2019		2019 – 2020		TRC
	Net Savings (MWh)	Total Utility Cost	Net Savings (MWh)	Total Utility Cost	Net Savings (MWh)	Total Utility Cost	
Community LED Distribution	12,210	$2,675,562	14,900	$2,675,562	17,177	$2,675,562	1.85
Residential Retail Lighting	92,773	$14,446,037	93,324	$14,487,428	93,807	$14,537,878	3.34
Low-Income Multifamily	6,092	$958,568	6,092	$955,165	6,092	$956,299	1.65
~~Small Business Direct Install~~	~~21,759~~	~~$5,711,937~~	~~21,488~~	~~$5,711,977~~	~~21,488~~	~~$5,751,932~~	~~1.18~~
STEP	1,967	$765,675	1,967	$765,675	1,967	$765,675	1.47
Private HVAC	6,957	$1,134,400	6,957	$1,134,400	6,957	$1,134,400	1.45
Public HVAC	6,957	$1,134,400	6,957	$1,134,400	6,957	$1,134,400	1.45
Exterior Lighting	8,346	$2,516,254	11,095	$3,345,367	13,316	$4,015,213	1.21
Lit Signage	12,978	$3,082,479	14,941	$3,544,850	17,923	$4,253,820	1.05
Commercial New Construction	978	$269,259	1,957	$546,939	-	$113,710	1.51
Non-Scalable Non-Program-Specific Section 16-111.5B Costs (1.55%)		$418,231		$443,142		$458,598	
TOTAL	149,258	$27,400,865	158,190	$29,032,928	164,196	$30,045,555	
~~Behavioral Program (Continuation Plus 125k All-Electric Expansion)~~	~~16,254~~	~~$2,812,500~~	~~24,783~~	~~$3,048,750~~	~~31,191~~	~~$3,358,125~~	~~1.17~~
~~Demand Based Ventilation Control~~	~~2,901~~	~~$843,732~~	~~4,641~~	~~$843,732~~	~~4,061~~	~~$843,732~~	~~1.97~~

The total net savings for these programs is estimated as 149,258~~190,172~~ MWh at the busbar for the 2017–2018 delivery year, 158,190~~209,102~~ MWh for the 2018–2019 delivery year, and 164,196~~220,936~~ MWh for the 2019–2020 delivery year. ~~These programs also contribute to a peak reduction of approximately 13 MW.~~ The estimated savings attributable to eligible retail customers is 56,108~~71,008~~ MWh for the 2017–2018 delivery year, 53,620~~72,315~~ MWh for the 2018–2019 delivery year, and 54,944~~75,900~~ MWh for the 2019–2020 delivery year.

9.5.8 Ameren Illinois Reservations and Requested Determinations

The Draft Plan identified the following request of Ameren Illinois:

> AIC may seek approval of programs as part of its Section 5/8-103 and Section 5/8-104 Plan that would render certain programs to be approved as part of the Procurement Plan duplicative, and may seek conditional findings in this docket to provide for such an outcome.

(Draft Plan, 125.) With respect to this request, the IPA asserts that it "changes the playing field for bidders after the fact through allowing a participating utility to receive bids under an open-ended RFP, but then to potentially shape its Section 8-103 portfolio so as to disqualify certain third-party bids after their receipt and analysis." While Staff does not disagree with the IPA's concerns, it is not accurate to identify Ameren Illinois' request as changing the playing field for bidders. In particular, the Ameren Illinois RFP stated:

> Bidder acknowledges that at the time of the AIC's submittal to the IPA by July 15, 2016, AIC will not have an approved AIC EE Plan for the plan period commencing June 1, 2017. Accordingly, AIC reserves the right to develop and propose programs that could be duplicative or competing to bidder's programs as part of its AIC EE Plan filing by September 1, 2016 pursuant to Section 8-103 of the Act. Accordingly, acceptance and implementation of those programs will be subject to the Commission's approval, which is expected within five months of the AIC EE Plan filing.

(Draft Plan, Appendix B, Electric Energy Efficiency Submission in Accordance with 220 ILCS 5/16-111.5B, Appendix 3.) The Plan should be clear that bidders were put on notice through the RFP that Ameren Illinois could develop and propose programs that could be duplicative or competing to bidder's programs and should not refer to Ameren's proposal as changing the playing field for bidders.

Statutorily-determined timing associated with development and approval of Section 16-111.5B and Section 5/8-103 and Section 5/8-104 plans injects uncertainty into the bidding process. While reducing this uncertainty as it regards third-party Section 16-111.5B bidders may have appeal, the IPA should remain flexible and willing to consider removing third-party programs from its Plan if Ameren Illinois develops and proposes duplicative programs to those currently being considered for inclusion in its Plan by the IPA. Bidders were aware of this possibility and the IPA should not foreclose adoption of an alternative selection of Section 16-111.5B programs that when viewed in combination with Section 5/8-103 and Section 5/8-104 programs and considering the energy efficiency goals in the statutes, provides for a preferred outcome.

Staff proposes the following modifications to page 125 of the Draft Plan:

As in previous years, the IPA does not object to the first request. However as noted in regard to the reservations made by Ameren Illinois, the IPA has concerns related to the second request. ~~This request appears to be a request that changes the playing field for bidders after the fact through allowing a participating utility to receive bids under an open-ended RFP, but then to potentially shape its Section 8-103 portfolio so as to disqualify certain third-party bids after their receipt and analysis.~~ It is unclear at this time how this reservation of rights will be applied by Ameren Illinois, but the Agency will approach any such post-hoc assertion of duplicity with an eye toward a request for proposal process that took place without any such overlapping programs having been identified to bidders.

9.6 ComEd

9.6.1 ComEd Managed Programs

9.6.2 ComEd Bids Received

Staff proposes the IPA insert the word "during" in the paragraph before Section 9.6.3 on page 126 of the Draft Plan, as follows:

In order to provide the IPA with a broad range of feedback on the bids received, ComEd solicited involvement from members of the SAG. The DCEO and two other organizations participated in the review process: the Natural Resources Defense Council and the Environmental Law & Policy Center. The Office of the Attorney General, the staff of the Illinois Commerce Commission, and the IPA also participated in the discussions but did not formally participate in the review process by providing bid scoring to ComEd. A key topic of discussion <u>during</u> bid review was how to address programs that may pose a significant performance risk based on program design or the past performance of that bidder. These discussions resulted in the development of the two-part test for performance risk explained further below. The work product ultimately produced through this process was a report that was submitted to the IPA on a confidential basis that included qualitative program review by both stakeholders and ComEd.

9.6.3 Review of the ComEd TRC Analysis

9.6.4 Duplicative Program

Staff proposes the IPA include the discussion of the duplicative Small Business New Construction Program in Section 9.6.4. Staff proposes the IPA delete the discussion of the Small Business New Construction Program from Section 9.6.7 and delete this program from Table 9-5. In addition, Staff proposes the IPA include language to reflect the fact that since the release of the Draft Plan, ComEd has since filed Plan 4 in ICC Docket No. 16-0420. Furthermore, the IPA should find that the duplicative Small Business New Construction Program should not be included in the Plan because it is duplicative of the comprehensive Non-Residential New Construction offering included in ComEd's filed Plan 4. Staff notes that ComEd's Plan 4 filing specifies that a settlement stipulation supporting approval of the Plan is expected to be filed in ICC Docket No. 16-0420.

Accordingly, Staff proposes the addition of the following language to page 127 of the Draft Plan under Section 9.6.4:

> <u>The IPA believes that a bid for Small Business New Construction program is duplicative of the comprehensive Non-Residential New Construction program that ComEd has included in its Section 8-103 energy efficiency portfolio filed in ICC Docket No. 16-0420. Currently, the Small Business New Construction program is excluded from this Plan based upon the expectation that the Commission will approve the comprehensive Non-Residential New Construction offering as part of ComEd's Plan 4. The IPA believes ComEd's proposal to offer a comprehensive Non-Residential New Construction program in conjunction with the gas utilities and serve both large and small customers as part of its Plan 4 is the optimal approach for serving the new construction market in ComEd's service territory for purposes of this Plan. Such an approach is efficient and provides for a unified customer experience.</u>

> Because the Small Business New Construction program meets the requirements for consideration of Section 16-111.5B programs, if the Commission wishes to approve the Small Business New Construction program on a conditional basis pending the outcome of the approval of ComEd's Section 8-103 portfolio, the IPA would not object to that determination. Specifically, ComEd has suggested that if the Commission does not approve the Non-Residential New Construction program in ComEd's Section 8-103 portfolio, then the Section 16-111.5B Small Business New Construction program would proceed; otherwise, the approval of the Section 8-103 Non-Residential New Construction program would authorize ComEd not to proceed with this Small Business New Construction program under Section 16-111.5B.

9.6.5 ComEd Identification of "Performance Risk"

In addressing performance risk, the IPA identifies a two-step approach developed by ComEd and participating stakeholders which identifies potential performance risk based upon past performance, but allows for adjusted expectations based upon relevant new information. (Draft Plan, 127.) The IPA requests feedback on this two-step proposal. (Draft Plan, 128.) Staff supports this plan and believes it is a reasonable approach to addressing performance risk for purposes of this Plan. Staff does, however, raise two considerations with respect to this proposal.

First, the IPA asserts the risks associated with non-performance are almost entirely mitigated through pay-for-performance contracting. (Draft Plan, 128.) This overstates the protections offered by pay-for-performance contracting. In particular, pay-for-performance contracting certainly does not enable the utilities to recover from vendors the utilities' administrative costs associated with non-performing programs.

Additionally, the two-step proposal relies upon a five percent past performance criteria to screen bidders that may prove to be an insufficiently low benchmark in the future. For example, a provider that only delivered 6% of its savings goals certainly could not be said to have performed well in the past. Thus, Staff suggests, at a minimum, that the IPA remain open to adjustments of this approach in future years as it may prove insufficient to protect customers from costs resulting from unreasonable and/or excessive performance risk.

Staff is also concerned that locking in such a low bar does not incent vendors to accurately forecast their expected savings. In particular, vendors currently have an incentive to overstate achievable savings bid into program submittals in order to pass the TRC test. A low bar of needing to meet only 5% of proposed savings goals may provide the impression to bidders that proposing realistic savings goals in their bid submittals is not something of value. Alternatively, if, for example, the bar was established at 99% of savings goals, then this would provide a clear signal to bidders that they need to propose realistic savings goals because if they were to fail to achieve 99% of the savings goal, then they could be rejected during bid review in future program years. Staff notes that this concern about overstating achievable savings is not a hypothetical one. Numerous bids have proven to be overstated. The low bar adopted in this Plan, if relied upon for use in future bid reviews, may exacerbate this current problem in future bid submittals. Thus, Staff would request the IPA to have the Commission approve this approach for purposes of the current Plan, but direct the non-financially interested SAG parties to address this issue further to determine what might be an appropriate benchmark(s) to use in future years bid review processes.

Therefore, Staff proposes the following modifications to page 128 of the Draft Plan:

> At the same time, while the IPA believes that risks associated with non-performance are partially ~~almost entirely~~ mitigated through pay-for-performance contracting, there are other negative outcomes caused by non-performance which may justify being mindful of performance risk.[272]

> The two-step approach proposed as part of ComEd's submittal seeks to punish only those vendors performing especially poorly, and even then provides a second step examination that could allow for the inclusion of that vendor's program. It seeks not to punish unfamiliar or unorthodox program design, only egregious non-performance.
>
> With those considerations in mind, the Agency believes this two-step approach developed by ComEd and participating stakeholders strikes a reasonable balance between competing considerations and agrees with its application to these programs, but the IPA is concerned about the very low bar and perverse incentives this might create for overstating achievable savings in future bids and as such suggests this topic is appropriate for non-financially interested stakeholder discussion at SAG following Commission approval of the 2017 Procurement Plan. As such, the IPA is not including these three programs pursuant to the recommendation of ComEd. ~~The IPA welcomes comments and feedback regarding this determination and the criteria developed by ComEd and interested parties.~~ Should some (or all) of these programs be recommended for inclusion in the Final 2017 Plan, Table 9-4 includes the savings and budgets for these programs.

9.6.6 ComEd Identification of "Savings Risk"

In addressing other programs that may have some risk of not meeting savings goals, the IPA again states that these savings risks are sufficiently mitigated by pay-for-performance contracting. (Draft Plan, 129.) This again overstates the protections offered by pay-for-performance contracting and does not account for the fact that pay for performance contracting does not enable the utilities to recover from the vendors the utilities' administrative costs associated with non-performing programs.

Accordingly, Staff proposes at a minimum, changing "sufficiently" to "partially" on page 129 of the Draft Plan:

> The IPA has reviewed these concerns. While it appreciates the savings risks that could exist for these programs, the Agency believes that these risks are partially ~~sufficiently~~ mitigated by the pay for performance contracting model and therefore declines to exclude these programs from the Plan~~, but invites comments and feedback on this determination~~.

9.6.7 Conditional Approvals

As discussed in Section 9.6.4 above, Staff believes the discussion concerning the duplicative Small Business New Construction Program should be deleted from Section 9.6.7. Accordingly, Staff proposes the following modifications to page 129 of the Draft Plan:

> ~~A bid for Small Business New Construction program is potentially duplicative of a program that ComEd plans to propose as part of its Section 8-103 energy efficiency portfolio later this year. Because the Section 8-103 portfolio has not yet been approved by the Commission, ComEd has requested that the approval for the Small Business New Construction bid be only conditionally approved.~~
>
> ~~Specifically, ComEd has suggested that if the Commission does not approve the similar program in ComEd's Section 8-103 portfolio, then the Small Business New Construction program would proceed; otherwise, the approval of the Section 8-103 program would authorize ComEd not to proceed with this program under Section 16-111.5B. Currently, the Small Business New Construction program is included in this Plan because it meets the requirements for consideration of Section 16-111.5B programs. However, if the Commission wishes to approve it on a conditional basis pending the outcome of the approval ComEd's Section 8-103 portfolio, the IPA would not object to that determination.~~

9.6.8 ComEd Programs Recommended for Approval

Footnote 273 of the Draft Plan states: "ComEd also provided the results of the UCT test and 14 of the 16 proposed programs passed the UCT. The IPA considers that informational only and has not used the UCT test in its consideration of programs to include in this Plan." (Draft Plan, 129.) Staff disagrees with the IPA's assessment. The results of the Utility Cost Test ("UCT") are provided to satisfy the Section 16-111.5B(a)(3)(D) requirement to include an "[a]nalysis showing that the new or expanded cost-effective energy efficiency programs or measures would lead to a reduction in the overall cost of electric service." 220 ILCS 5/16-111.5B(a)(3)(D). Two of the energy efficiency programs that pass the TRC test and that the IPA proposes to be approved for implementation in the ComEd service territory fail to satisfy the UCT. Specifically, two programs have UCT values below 1.0, namely, the Middle School Energy Education Campaign Program has a UCT value equal to 0.95 and the Low Income Multifamily Retrofits Program has a UCT value equal to 0.95. Staff believes the IPA should rely upon this information that shows that approval of each of these programs would each lead to an increase in the overall cost of electric service and recommend to the ICC to exclude the two programs that fail the UCT from the Plan.

In addition, as explained in Section 9.2 above, Staff recommends the IPA seek and obtain from ComEd any non-scalable non-program-specific Section 16-111.5B costs and include estimates of all of ComEd Section 16-111.5B costs in its Procurement Plan filing with the Commission. Please note that while Staff includes an estimate of such costs in the proposed modifications to Table 9-5 below, this estimate should be viewed as a placeholder and Staff would encourage the IPA to obtain from ComEd its best estimate of expected non-scalable non-program-specific Section 16-111.5B costs. The placeholder estimates included in Table 9-5 were derived using the same percentage adder as Ameren, namely 1.55%.

Finally, as explained in Section 9.6.4 above, Staff recommends the IPA exclude the duplicative Small Business New Construction Program from the Plan and delete the program from Table 9-5.

Accordingly, the IPA should adopt the following modifications to pages 129-131 of the Draft Plan:

> ~~ComEd's submittal includes identification of 21 energy efficiency programs for inclusion in this Procurement Plan (five ComEd managed, and 16 third-party administered). All of these programs passed the TRC test at the time of assessment.[273]~~ Thes~~se~~ incremental energy efficiency programs the IPA recommends the Commission approve for implementation in the ComEd service territory are exhibited in Table 9-5. Specifically, the IPA recommends the Commission approve five ComEd-managed programs and 12 third-party programs that pass the TRC test and the Utility Cost Test without conditions. Additionally, the IPA recommends the Commission conditionally approve one additional third-party program, the Senior and Assisted Living program, consistent with the discussion above.

Table 9-5: ComEd Energy Efficiency Offerings

Program	2017 -2018		2018 – 2019		2019 – 2020		TRC
	Net Savings (MWh)	Total Utility Cost	Net Savings (MWh)	Total Utility Cost	Net Savings (MWh)	Total Utility Cost	
Residential Lighting*	217,863	$38,187,475	210,503	$38,191,850	201,959	$38,196,334	8.34
Residential Behavior*	321,958	$11,283,750	57,952	$11,290,844	55,506	$11,298,115	1.53
Residential Upstream Pumping*	642	$1,200,000	1,285	$1,800,000	2,312	$2,760,000	1.03
Small Business Energy Savings*	190,953	$47,457,500	209,819	$52,191,438	230,912	$57,395,473	1.45
LED Street Lighting*	4,153	$2,459,250	6,056	$3,586,406	6,308	$3,735,191	12.56
Small Commercial Lit Signage	19,989	$4,530,767	24,430	$5,538,748	27,752	$6,294,280	1.24
School Direct Install	4,039	$1,298,639	3,072	$1,116,897	3,072	$1,122,488	1.90
Agricultural Energy Efficiency	2,330	$627,209	3,014	$789,380	3,532	$921,494	1.27
Senior and Assisted Living†	22,518	$4,609,096	22,518	$4,609,096	22,518	$4,609,096	1.19
Faith-Based	1,149	$389,681	1,149	$389,681	1,149	$378,652	2.57
Rural Kits	1,241	$591,690	1,241	$591,690	1,241	$591,690	2.71
AC Tune Up	20,326	$4,190,893	20,326	$4,246,219	20,326	$4,303,412	1.51
~~New Construction Service Small Buildings~~	~~289~~	~~$87,857~~	~~1,851~~	~~$563,081~~	~~2,362~~	~~$718,279~~	~~3.23~~
Energy Saver	5,456	$240,786	6,894	$304,290	8,333	$367,794	1.52
Moderate Income Kits	11,645	$1,994,400	11,645	$1,994,400	11,645	$1,994,400	4.91
~~Middle School Energy Education Campaign~~	~~2,861~~	~~$1,139,356~~	~~2,861~~	~~$1,214,356~~	~~2,861~~	~~$1,214,358~~	~~1.78~~
Savings Through Efficient Products	2,397	$795,381	2,397	$829,791	2,397	$865,907	1.94
Enhanced Building Optimization	13,102	$2,500,000	13,102	$2,500,000	13,102	$2,500,000	1.92
LED Distribution	15,996	$3,056,000	12,997	$2,483,000	9,998	$1,910,000	1.80
Low Income Kits	22,048	$6,156,372	22,048	$6,156,372	22,048	$6,156,372	1.97
Non-Scalable Non-Program-Specific Section 16-111.5B Costs (1.55%)		$2,039,318		$2,148,457		$2,253,711	
TOTAL	877,805	$133,608,207	630,448	$140,758,559	644,110	$147,654,409	

~~Low Income Multifamily Retrofits~~	~~6,313~~	~~$2,558,683~~	~~6,313~~	~~$2,558,683~~	~~6,313~~	~~$2,558,684~~	~~1.65~~

* ComEd Managed Programs.
<u>† Conditional approval requested.</u>

The total net savings for these programs is estimated as <u>877,805</u>~~887,268~~ MWh at the busbar for the 2017–2018 delivery year, <u>630,448</u>~~641,473~~ MWh for the 2018–2019 delivery year, and <u>644,110</u>~~655,646~~ MWh for the 2019–2020 delivery year. ~~The programs also contribute to a peak reduction of approximately 41 MW.~~ The estimated savings attributable to eligible retail customers is <u>487,222</u>~~493,196~~ MWh for the 2017–2018 delivery year, <u>322,913</u>~~329,546~~ MWh for the 2018–2019 delivery year, and <u>324,357</u>~~331,957~~ MWh for the 2019–2020 delivery year.

The IPA ~~agrees with this assessment and~~ requests that the Commission approve the incremental energy efficiency programs as described above.

9.7 MidAmerican

10 Procurement Process Design

Appendices

Appendix A. Regulatory Compliance Index

Appendix B. Ameren Illinois Submittal

Appendix C. ComEd Submittal

Appendix D. MidAmerican Submittal

Appendix E. Ameren Illinois Load Forecast and Supply Portfolio by Scenario

Appendix F. ComEd Load Forecast and Supply Portfolio by Scenario

Appendix G. MidAmerican Load Forecast and Supply Portfolio by Scenario

Appendix H. Report from the Illinois Energy Efficiency Stakeholder Advisory Group (IL EE SAG) 2016 Section 16-111.5B Workshop Subcommittee

Appendix I. Additional Program Descriptions for Ameren Illinois Section 16-111.5B Energy Efficiency Programs

Conclusion

Staff respectfully requests that the Illinois Power Agency revise its Draft Plan consistent with Staff's Comments herein.

Respectfully submitted,

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