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September 15, 2014

BY EMAIL AND U.S. MAIL
Mr. Anthony Star
Director
Illinois Power Agency
160 North LaSalle Street
Chicago, IL 60602

Re: Comments on Illinois Power Agency Draft 2015 Electricity Procurement Plan

Dear Mr. Star:

Comverge, Inc. ("Comverge") appreciates this opportunity to present comments on the Draft 2015 Electricity Procurement Plan Illinois Power Agency's (the "IPA"). Specifically, Comverge's comments will focus on and support the IPA's proposed procurement of less-expensive demand-side resources in lieu of conventional supply during "super-peak" summer periods (i.e., from 3 P.M. – 7 P.M. on non-NERC holiday weekdays from June 1 – August 30).

Comverge is a leading provider of intelligent energy management solutions to residential and commercial & industrial (C&I) customers. With 30 years of experience helping customers implement innovative demand-side management programs, Comverge has deployed more than five and a half million energy management devices, recruited over one million residential customers into mass market demand response programs, and served thousands of commercial & industrial customers.

With regard to the IPA's request for comments contained within its Draft 2015 Procurement Plan published on August 15, 2014, Comverge respectfully submits the following comments on Section 7.1 of the IPA's Draft Procurement plan entitled Energy Efficiency as a Supply Resource ("EEAASR"):

I. Comments on Section 7.1.2 - EEAASR Principles

A. IPA Section 7.1.2 Principle 1

First, any EEAASR procurement should be structured to provide lower expected total customer costs than a comparable supply-side procurement. Although the Commission has interpreted "lowest total cost over time" as referring to the Agency's entire plan while stressing the value of portfolio diversity, energy efficiency also participates as a Section 16-111.5B resource, allowing for some of its benefits to be already captured. For energy efficiency to displace blocks of supply in standard energy procurement, the Agency believes an EEAASR procurement should feature a lower expected total cost to ratepayers, inclusive of administrative costs, than what would be accomplished through its block supply procurement.

Comverge supports IPA Section 7.1.2 Principle 1.

B. IPA Section 7.1.2 Principle 2

Second, an EEAASR procurement should be focused on pre-designated "super-peak" blocks. Although procuring demand-side resources responsive to high price or load may have advantages, these approaches offer administrative complexities (such as active management through an operator) that the Agency is not currently equipped to manage or assign. Segregating out expected highest-use blocks in advance and conducting a "super-peak" EEAASR procurement for those blocks offers a clear, consistent approach that enhances delivery certainty and fits squarely within the Agency's established procurement processes and expertise.

Comverge supports IPA Section 7.1.2 Principle 2.

C. IPA Section 7.1.2 Principle 3

Third, the products procured in an EEAASR procurement should be resources on the customer side of the meter. The Agency envisions that in future procurements demand-side and supply-side resources could compete on level terms, but believes that procurement structure and administrative ease is best served by procuring customer-side products exclusively in its initial EEAASR procurement.

Comverge supports IPA Section 7.1.2 Principle 3.

D. IPA Section 7.1.2 Principle 4

Fourth, the size of the individual blocks to be procured should be small enough to allow for small scale load reductions to compete. Whether such programs feature compelling-enough economics will be determined through a competitive procurement process, and the Agency should ensure that procurement block size is not so large as to exclude otherwise cost-effective load reductions.

Comverge supports IPA Section 7.1.2 Principle 4.

E. IPA Section 7.1.2 Principle 5

Fifth, contracts should be for a length greater than only one year. Given the potential administrative costs of an EEAASR procurement, and the operational costs for resource-providers, multi-year delivery contracts feature far more compelling economics—significantly increasing the likelihood of a "least cost" procurement. Multi-year contracts also provide more value and certainty to the end users who produce the underlying reductions.

Comverge supports IPA Section 7.1.2 Principle 5.

F. IPA Section 7.1.2 Principle 6

Sixth, caution must be taken to ensure against non-delivery. The Agency recognizes that eligible retail customer interests are only furthered to the extent that lower-cost resources are actually delivered. Should non-delivery occur, replacement super-peak supply would have to be procured on the spot market at a potentially greater cost. Therefore, the Agency would need strong credit requirements and non-delivery penalties, perhaps mirroring those for conventional supply contracts. Failure to deliver the resource by a supplier should not create additional costs for eligible retail customers.

Comverge supports IPA Section 7.1.2 Principle 6 that "caution must be taken to guard against non-delivery." In addition to strong credit and non-delivery penalties, Comverge believes that to best ensure the demand-side product bid in is actually delivered in the amounts bid that the program should be structured so that actual payment to providers of the EEAASR product should occur only on delivery after actual performance has been verified. This provides a mechanism to ensure conservative bidding by potential EEAASR providers, thereby eliminating a large portion of the non-delivery risk. Industry standards exist to validate the delivery of demand resources and Comverge recommends that the IPA adopt the generally used industry standards in use today. These standards include the use of metering data

and/or statistical analyses. In particular, the provision of a detailed measurement and verification study is commonly used to validate the delivery of demand resources after the fact. Importantly, the Advanced Metering Infrastructure ("AMI") being deployed by Commonwealth Edison Company and Ameren Illinois Company in their respective service territories make verification and metering of demand-side resources easier and more straight forward.

Comverge recommends that payment for demand-side resources be made based on actual data supplied by the utility AMI, or if AMI has not been deployed for certain customers statistical sampling can be utilized for settlement payment calculations. Comverge recommends that the procurement process should set a price for the demand resources that a provider can rely on but would only be paid out based on actual performance, and not an estimated provided beforehand with payments not being made until demand-side resources are delivered and verified based on actual delivery of demand-side resources.

G. IPA Section 7.1.2 Principle 7

Seventh, EEAASR resources may be procured from customers statewide (and, if feasible, not merely "eligible retail customers"), including from competitive-class customers. As supply resources would be similarly unrestricted, demand-side resources displacing supply blocks should not be restricted to customers for whom the Agency procures energy. However, procured demand-side resources should be delivered within the service territory for which they're being procured (even if not situated within the service territory itself), and the Agency believes its initial EEAASR procurement should be limited to Illinois-based resources.

Comverge supports IPA Section 7.1.2 Principle 7.

II. Comments on Section 7.1.3 – EEAASR Procurement Proposal

A. Super-Peak Blocks Using on Pre-Scheduled Dates/Times: The Agency proposes procuring a demand-side product delivered during the hours of 3 p.m. to 7 p.m. CST on summer non-NERC holiday weekdays (e.g., 4-hour blocks for 5 days a week—other than July 4th if it falls on a weekday— for the period running from June 1 through August 30). This equates to approximately 260 hours per delivery year. To the extent load reductions during the super-peak time result in load shifting to other times, the cost impact of the load reductions

should net out the expected increased costs incurred by eligible retail customers at those other times.

Comverge supports the procurement of a demand-side product delivered during the hours of 3 p.m. to 7 p.m. CST on summer non-NERC holiday weekdays for the period June 1 through August 30. The demand-side product should be designed to reduce the total amounts of kilowatt-hours used during the super-peak period.

B. Multi-Year Contracts: The Agency proposes to procure 3-year delivery contracts of EEAASR products. The Agency believes that this contract length best mitigates administrative costs and supplier overhead, while capping contract length in a manner consistent with the IPA's scheduled block procurement of supply.

Comverge supports the use of 3-year delivery contracts for EEAASR products. Comverge suggests, additionally, that some creativity be utilized during the procurement. The IPA should acknowledge that building out a demand-side resource is an incremental process, and can be built out at a constant rate. So, with a certain window between the procurement and the delivery date, only a certain amount of demand-side resources can be built. However, over the next year, much more could be built. As a result, it may be prudent to allow escalating offers in the procurement.

C. 100 kW blocks: The Agency proposes to procure 100 kW demand-side resource blocks. The Agency believes that this block size should be small enough to allow for broad participation and appropriately accommodating of small programs. The Agency notes that large load-reduction programs can purchase multiple blocks, and all load-reduction programs may aggregate to purchase individual or multiple 100 kW blocks.

Comverge believes that the procurement should occur in blocks of total kilowatt-hours reducing during the super-peak period. If the IPA is looking to procure 100 kW in reduced demand during the designated super-peak period, this would be equivalent to 100 kWh of reduced usage "delivered" each hour for the approximately 260 hours of the super-peak period. A procurement block representing a 100 kW reduction in demand during the super-peak period would be equivalent to about 26,000 kWh. As a result, Comverge recommends that the demand-side resources be procured in round blocks of 25,000 kWh total reductions during the super-peak period.

D. Late 2015 Procurement; June 2016 Delivery: As an EEAASR procurement will require new contracts and EEAASR suppliers will need ramp-up time to secure and develop resources, the Agency believes that conducting a Spring 2015 procurement or expecting Fall 2015 delivery decreases the likelihood of a successful procurement. By adopting a longer timeframe, the Agency will have time to work through administrative complexities and allow for the market to properly organize.

Comverge could support the late 2015 procurement and June 2016 delivery time frame. Alternatively, because demand resources are built in an incremental manner, Comverge suggests moving the procurement date in 2015 as early in the year as possible, allowing for the longest amount of time to build out the resource. The total amount of demand response procured will be linked directly to the time span between the procurement and delivery dates.

E. Summer Procurement Only: While arguments can be made for including a winter EEAASR product in this procurement, the periods (and magnitude) of high winter peak prices are generally less predictable than during the summer. The Agency would prefer to demonstrate the merits of an EEAASR procurement before pursuing what may be a more challenging model with a winter EEAASR procurement, and notes that a winter EEAASR procurement may be most effective if driven by triggered price or load thresholds.

Comverge supports the IPA procurement of a summer EEAASR product only at this time. Comverge supports the IPA continuing to evaluate a winter EEAASR product procurement for future procurement plans since a winter EEAASR product procurement will produce a similar effect to a summer EEAASR procurement (i.e., lower costs to customers for energy during high peak periods).

F. Sufficient Volume to Reduce Relative Procurement Cost: As administrative costs could swallow the benefits of small procurement, the Agency proposes to procure a minimum procurement volume in order to maximize the cost-effectiveness of an EEAASR procurement. The Agency invites feedback on the appropriate minimum procurement volume amount and strategies to ensure that the volume can be filled, both on this draft Plan and in the resulting litigation before the Commission.

Comverge supports the procurement of a minimum procurement volume in order to maximize the cost-effectiveness of the EEAASR procurement.

G. Optionality: The Agency is proposing a late 2015 Procurement for June 2016 delivery. However, if the Agency believes that administrative costs may be too significant relative to volume procured or that the market is not appropriately mature, or should some other reason or barrier cause the Agency to believe that an EEAASR procurement would not be in the best interests of customers, the Agency—in consultation with ICC Staff, the Procurement Administrator, and the Procurement Monitor—requests permission to cancel a planned EEAASR procurement no later than August 2015 without further Commission approval.

The IPA need not be so concerned with the volume procured. A much more meaningful metric is the impact on price to customers, which will almost certainly be positive regardless of the amount procured. Energy efficiency has shown again and again to have a dramatic impact on customer costs in the near term and long term. In the near term, energy efficiency resources can significantly lower energy costs. Energy efficiency resources also allow incumbent utilities to delay investments in incremental infrastructure, and should also delay investments in incremental generation plants. The net result of these delays is lower costs to consumers and lower emissions.

Comverge opposes the IPA having the ability to unilaterally cancel the planned EEAASR procurement because this could cause an unnecessary hardship on demand-side product providers who will make investments in Illinois in order to be able to provide this product in Illinois. Additionally, while Comverge understands that this procurement should be done in the best interests of customers, if there is not a likelihood that at least some volume of demand-side product will be procured by the IPA, there could be a chilling effect on demand-side product providers in Illinois. Rather than a unilateral option to cancel the procurement before it even occurs, the IPA should reserve the option to not procure the EEAASR resources if the bids do not result in lower expected total cost to ratepayers, inclusive of administrative costs, than would be accomplished through the IPA's block supply procurement.

III. Comments on Section 7.1.4 – EEAASR Procurement Issues to Resolve Prior to an EEAASR Procurement

A. Vendor/Program Qualification: The Agency believes it may need to adopt a rigorous qualification process for EEAASR procurement resources. This process would ensure that while bids will ultimately be evaluated on price as required by Section 16-111.5(e)(4) of the Public Utilities Act, they are in fact new demand side resources for purposes of this procurement. While not making any specific recommendation in this Plan, the IPA suggests that the ISO-New England Manual for Measurement and Verification of Demand Reduction Value from Demand Resources may be an appropriate starting point for development of protocols for this procurement.

Comverge supports a rigorous qualification process for EEAASR procurement resources. Additionally, Comverge supports the use of generally accepted industry standards and practices for the measurement and verification of demand reductions from demand resources. Specifically, Comverge supports the use of the ISO-New England Manual for Measurement and Verification as an appropriate starting point for the development of protocols for this procurement.

B. Other Programs: As a general matter, the Agency seeks to avoid overlap of delivered energy savings for this procurement and energy efficiency outcomes for measures instituted via programs authorized under sections 8-103 and 16-111.5B of the Public Utilities Act, and would prefer for an EEAASR procurement to elicit the development of new resources. However, some parties have suggested that the peak hours for which the EEAASR procurement takes place could be "backed out" of participation in Section 8-103 or 16-111.5B programs, thus allowing for dual participation without energy savings overlap. The Agency seeks continued feedback on this topic as well.

Comverge has no comment on this issue.

C. Product Definition: Prior to procurement, the Agency will need to develop a more refined definition of resources eligible to participate. It is currently unclear whether standby generation, energy storage, and combined heat and power should be eligible, and the Agency believes there may other resource types it has not yet considered which could inform "product" definition. Further thought may also need to be given to the distinction between energy efficiency and demand response, and

to the relevance of that distinction for purposes of this procurement. The Agency believes a more inclusive approach may be advisable to ensure that an EEAASR procurement reaches sufficient scale, but seeks additional feedback from parties on how best to define an EEAASR product.

Comverge supports a simple EEAASR product definition of "a product which reliably reduces energy use during the super-peak period by a quantifiable, verifiable amount." Comverge does not support a distinction between demand response and energy efficiency. Comverge does support, however, segregating the procurement into resources from residential demand side customers and resources from non-residential customers.

D. Credit Requirements and Non-Delivery Penalties: Ideally, an EEAASR procurement would feature no more default or non-delivery risk than a standard energy supply procurement. The Agency has given consideration to approaches to ensure against non-delivery, but would prefer to better understand risks and benefits of various approaches before making a firm recommendation. The Agency looks forward to continued feedback from parties through this docket on how best to ensure that non-delivery risks are mitigated.

Comverge suggests that the best way to mitigate non-delivery risks is that demand-side providers be paid after the fact based on actual performance of the demand-side resource. Importantly, if payment is conducted after the fact based on actual performance, this will ensure that suppliers are precise and conservative in their bids. This is the best insurance against non-delivery. Comverge recommends that payments for demand-side resources be made based on actual data supplied by the Utility AMI, or if AMI has not been deployed for certain customers statistical sampling can be utilized for settlement payment calculations.

E. Verification: To ensure customer interests are properly protected, load reductions through an EEAASR procurement should be subject to strict measurement and verification requirements. While specific evaluation approaches will be driven by choices made on other unresolved items (such as product definition), the Agency believes that the Illinois Technical Reference Manual for Section 8-103 programs may be an appropriate starting point in the development of EEAASR evaluation protocols.

Comverge supports using rigorous measurement and verification protocols for the EEAASR procurement. Comverge's position is that if the IPA plans

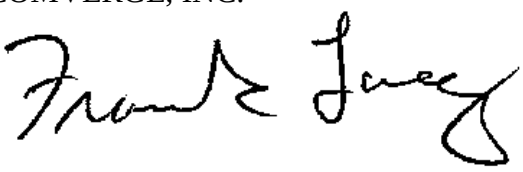
to use the ISO-New England Manual for Measurement and Verification of Demand Reduction Value from Demand Resources as a starting point for Vendor/Program Qualifications, which Comverge supports, the same manual should be used as a starting point for Measurement and Verification protocols to be consistent.

Conclusion

Comverge appreciates the opportunity to submit these comments to the Illinois Power Agency. Comverge supports the IPA's efforts to reduce electricity supply costs to all Illinois consumers by procuring demand-side resources for "super-peak" summer periods. Demand-side resources are reliable supply resources that have proven to be more cost effective than generation in meeting peak system needs. Demand-side resources can be easily and effectively incorporated into your supply procurement needs.

Sincerely,

COMVERGE, INC.



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